

**UNIVERSITY OF VAASA  
FACULTY OF BUSINESS STUDIES  
DEPARTMENT OF MARKETING**

Heikkurinen Pasi

**STRATEGIC POSITIONING WITH  
AN ENVIRONMENTALLY RESPONSIBLE IMAGE**

Master's Thesis in  
International Marketing

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## ACRONYMS AND ABBREVIATIONS

B2B	Business to business
B2C	Business to consumer
B2NGO	Business to non-governmental organizations
CA	Competitive advantage
CEO	Chief executive officer
CO <sub>2</sub>	Carbon dioxide
CR	Corporate responsibility
CS	Corporate sustainability
CSR	Corporate social responsibility
EK	Confederation of Finnish Industries, (Elinkeinoelämän keskusliitto)
EM	Environmental marketing
GDP	Gross domestic product
GRI	Global Reporting Initiative
HRM	Human resource management
IT	Information technology
Kg/gn	Kilograms per guest night
NGO	Non-governmental organization
OECD	Organisation for Economic Cooperation and Development
P1.	The first working proposition
P1.*	The first revised proposition
Q1.	The first research question or sub-objective
RBP	Resource based-perspective
RBV	Resource based-view
R&D	Research and development
SME	Small and medium-sized enterprises
T1.	The first theme
TNS	The Natural Step



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**UNIVERSITY OF VAASA**
**Faculty of Business Studies**

<b>Author:</b>	Heikkurinen Pasi	
<b>Topic of the Thesis:</b>	Strategic Positioning with an Environmentally Responsible Image	
<b>Name of the Supervisor:</b>	Prof. Larimo Jorma	
<b>Degree:</b>	Master of Science in Economics	
<b>Department:</b>	Marketing	
<b>Major Subject:</b>	International marketing	
<b>Year of Entering the University:</b>	Master of Science in Economics	
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**ABSTRACT**

Companies are increasingly becoming interested in responsible business due to external pressures and possibilities of enhancing competitiveness. The purpose of this study is to explore and analyze the strategic implications of corporate responsibility (CR) with a model building approach – *how can a firm position itself with corporate responsibility (CR) and in particular with environmental responsibility?*

The findings of this single case study in the Nordic hospitality industry provide evidence that corporate responsibility (CR) can be a strategic issue and a source of competitive position. A firm can position itself with an environmentally responsible image. The image is reflected from a responsible identity that is built upon the values of the firm – and communicated to the key stakeholders. The perception in the key stakeholders leads to differentiation from competitors, however with an approximated time delay of 3 to 4 years. Thus the firm becomes a more preferred employer, partner and supplier; results as enhanced employees' motivation, cost savings, better reputation, and greater guest loyalty.

Since stakeholder oriented firms modify their values according to their stakeholders' values, the success of strategic positioning with CR depends on managerial capabilities to adjust the amount of CR to correspond with their key stakeholders' values. In addition to this micro-level analysis, it is important that firms take into consideration the drivers, or lack of them, also on the meso-, macro-, and global-levels.

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**KEYWORDS:** Strategic positioning, corporate responsibility, environmentally responsible image, hospitality industry, stakeholder approach.



## 1. INTRODUCTION

### 1.1. Background of the study

The rising awareness of individuals and increase in collective consciousness of human beings have resulted in a global debate on environmental matters. It appears that within a decade, particularly, values and demands of mankind have changed towards a greener way of thinking and living. More and more, each sector (private, public, third and fourth) shows interest in environmental protection. Firms are eco-labelling and expressing their passion for sustainable growth; governments are enacting laws concerning emissions and waste reduction; foundations and associations are demonstrating; media is spotlighting the issue; and families recycle and have more information about the phenomenon than ever before.

When discussing in the context of companies, this phenomenon is often referred as corporate responsibility (CR). As a phenomenon CR is not recent. What is recent, is the huge attention it has received lately (Lotila 2004). The ongoing debate on this subject has mostly concerned the environmental issues such as the global warming in a form of reduction of the CO<sub>2</sub> emissions and other green house emissions. However, corporate responsibility includes much more. The Global Reporting Initiative – a practical framework that sets out the principles and indicators those organizations can use to measure and report their environmental and social performance – has listed 141 CR issues for different industries (The Global Reporting Initiative 2008). Accordingly, what is seen regarding CR is only a top of an iceberg.

It is obvious that this kind of an accelerating megatrend creates both new opportunities and threats for firms. The organizations concerned about their short-term profitability are more likely to resist the upcoming costs of greening and see the proliferated environmentalism rather as a threat to their business (cf. Richter 2001: 186). Where as, the long-term oriented organizations understand the necessity of these investments and the opportunity they hold within.

Motives for corporate responsibility vary, as well as the amount of involvement among firms. At the low end, firms' responsibility does not even meet with the legislative requirements. Examples of this are seen repeatedly in the media. The middle range, which encompasses most of the companies today, seems to do what is obligatory, just to be on the safe side. At the high end, firms voluntarily exceed the statutory level of responsibilities, either for ethical or strategic reasons - or for both.

Pre-eminently the strategic CR is under the spotlight, in which firms see the CR as a possibility to increase the well-being of their society, environment and organization. On behalf of the firm, the well-being would mean a strengthened competitive position and an increase in their competitive advantage.

Even though the corporate world is full of great examples of how to be an irresponsible firm, this study concentrates on how to be responsible. In other words, this study is interested in these opportunities that responsible business can offer, since corporate responsibility is becoming more and more widespread (Cramer 2005). Being so, this research is conducted on a case study basis, with a hospitality industry leader in responsible business, a Nordic hotel chain, Scandic.

In the academic literature the discussion has been hot and controversial about whether voluntary corporate responsibility increases or decreases competitiveness. Lack of unanimity in number or research, could be due to the challenge to measure this kind of correlation reliably because of the qualitative variables. Consequently, instead of juggling between yes or no, the results of this study will answer how this occurs, if yes. The conclusions offer contribution to both the academia and managerial purposes.

## 1.2. Purpose and research problem

The purpose of this research is to explore and analyze the possibility of strategic implications of CR in a firm. The research aims to benefit both the business life and the academia by increasing the understanding of the phenomena with a model building approach. The building of the model is based on the stakeholder point of view, which will be presented and challenged later in the

text. The purpose of the study leads to the main objective which is to create a model that answers the research problem phrased as follows:

*How can a firm position itself with corporate responsibility (CR) and in particular with environmental responsibility?*

Because of the non-existence of antecedent models the stress of the study is on theoretical reasoning. The problem setting leads to more specific sub objectives and research questions. These are ought to be clarified in order to answer the research problem. The first two of the sub objectives are dissected on a more theoretical basis, whereas the third one requires an empirical approach. The first sub objective is to identify:

*Q1. What are the concepts that connect competitive advantage (CA) to corporate responsibility (CR)?*

Without a profound illustration of the involved concepts, the base of the study would remain unstable. The answer to this research question will define the concepts involved (that connect CA and CR) and thus allow a deeper dissection of their interrelations. The second sub objective is:

*Q2. Based on previous literature, to build a hypothetical model that analyses the presumed causal links between the concepts that connect competitive advantage (CA) to corporate responsibility (CR).*

In this second objective, these interrelations are under scrutiny. As a result of a successful fulfilment of these objectives, theoretical understanding of the phenomenon will be adequate. While the hypothetical is presented working propositions are developed and postulated.

In order to deepen the understanding for the main research question, an empirical objective is added next. The third and last sub objective is to find out:

*Q3. Does the hypothetical model correspond to the context of the case company? If not entirely, what are the suggested revisions for the model?*



The third sub objective question will impugn the theoretical framework and thereupon either support or transfigure the model. The data collection and analysis will be guided by the postulated working proposition.

Because of many reasons, this problem and these questions need to be addressed. The role of environmental responsibility increases every day. First of all, arguably, the environment cannot endure this kind of heavy exploitation of nature. Secondly, it is important for companies to follow the on-going megatrends in the globe – hence to stay competitive and increase their knowledge about corporate responsibility. Thirdly, also academia seems very interested in research conducted concerning corporate responsibility, since the knowledge about the subject is still rather shallow. Therefore the purpose of this research serves and benefits the environment, business-life and academia.

The study dissects the subject from a firm's management point of view. The viewpoint is related to the theory of a firm, in which the concepts are looked from the perspective of maximizing firm's profits (Jensen 1988) and competitiveness. Based on this viewpoint, CR can be considered as a form of either successful or unsuccessful investment in differentiating its image in an industry (McWilliams & Siegel 2001). As positive results of these investments CR is seen providing internal or / and external benefits, which are derived from a resource-based perspectives, RBP or RBV (Bowen 2007; Branco & Rodrigues 2006; Russo & Fouts 1997). The motive for CR actions in RBV is to gain competitive advantage (Kovács 2006: 62). This rather harsh and neoclassical standpoint is chosen because of the presumption that firms do not behave in a purely ethical way, at least not yet. Another, a more practical standpoint for this study is the stakeholder approach (Freeman 1984) that will be presented in the next chapter.

### 1.3. Definitions, limitations and positioning

*Strategy* making is popularly, as well as here, considered as the vertex of managerial activity. However, universally is not agreed the viewpoint where strategy and competitive advantage should be looked from. Whether it should be seen as a formal, analytical, or perhaps a collective process? This thesis sees that all of these approaches are important at some place and point of time,

however, as a limitation, this research focuses only on the positioning school of thought. The definition of strategy and standpoint of this study are presented in detail in the second main chapter.

*Competitive advantage* is the pursuit of finding a competition position in an industry, the fundamental arena in which competition takes place. Competitive advantage results in performance outcomes that include: superior customer satisfaction; customer loyalty; market share; and enhanced financial performance. (Miles & Covin 2003.) Therefore the purpose of the competitive strategy is to create a profitable and sustainable position against its competitors. The commonly accepted three ways to create competitive advantage, by Porter (1980, 1985), are cost efficiency, differentiation, and focusing. This study understands the importance of the "context-relatedness" in the choosing of a propriety strategy. However, as a limitation, the search of competitive advantage is limited to differentiation strategy; the other two are reviewed briefly.

*Differentiation* The second out of three generic strategies, differentiation, will be under more specific examination in this research. In this form of competitive strategy, a company endeavours to be unique in its industry along some dimensions that are widely valued by buyers. In order to succeed, the company selects one or more attributes that a group of buyers in an industry appreciates and values as important. (Porter 1985: 14.) In order to have a more specified study, the dissection of differentiation is done only regarding the corporate image.

*Corporate responsibility (CR)*, which in many of the Anglo-American literature is a synonym for Corporate Social Responsibility (CSR) is active responsibility, which "stems from the company's values, objectives and activities and which takes into account the expectations of the main stakeholders" (EK 2006). corporate responsibility consists of financial, social, and environmental responsibility (van Marrewijk 2003). As a limitation, the stress in this study is on the environmental responsibility.

*Stakeholder approach* The origin of the stakeholder theory or approach is in R. Edward Freeman's work in 1984. He presented a stakeholder model that emphasized that changes in the external environment have forced firms to

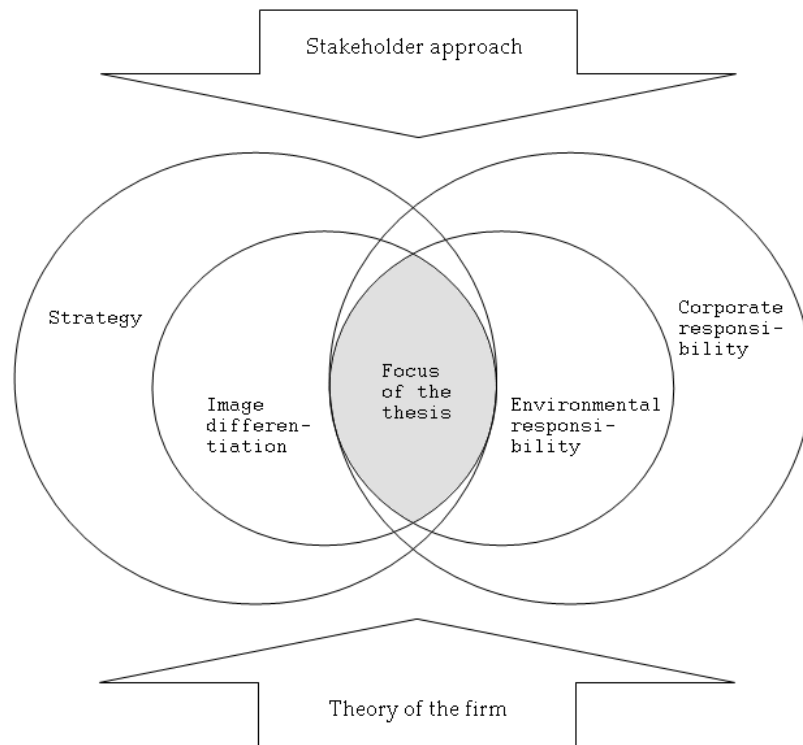
learn how to understand and respond to these changing needs of the groups in the environment (Freeman 1984). Freeman (1984: 25) defines stakeholders as “any group who can affect or is affected by the achievement of the firm’s objectives”. In other words, today firms have a need to identify and address the concerns of their stakeholders to ensure that their actions are in line with their stakeholder expectations (Green & Hunton-Clarke 2003). Typical stakeholders of a firm can be customers, employees, society, suppliers, governmental bodies, shareholders, creditor, managers or even media.

*Hospitality industry* The chosen empirical context for this research is the hospitality industry in Sweden and Finland. A business dictionary defines hospitality industry in a way that is also suitable for this specific case study. Hospitality industry includes “hotels, motels, inns, or such businesses that provides transitional or short-term lodging with food” (Business Dictionary 2009). Since hotels in the Nordic countries have not received great attention from academic researchers regarding the CR, the industry offers a pleasant research gap or niche. In addition, the writer of this thesis has personal work experience from the field and a special interest to study the one empirical context in question.

The phenomenon will be dissected with a help of a case company, or more specifically a hotel chain named Scandic. The theoretical part is intended to be general and applicable for several industries and therefore the hospitality industry and the case company are not dissected until the the empirical part.

*Positioning* This thesis stands on two theoretical pillars, and stems from these two fields of research. The first theoretical pillar is “strategy” and the other one is “corporate responsibility”. As previously mentioned in limitations, in “strategy”, the focus is on differentiation and image literature. And in “corporate responsibility”, the stress is on the environmental side.

Therefore it is evident that this thesis owes most of its discussion to the bodies of literature, however, an empirical part is vital for the study to be completed. The positioning of the thesis in the intersection of image differentiation and environmental responsibility literature and practices explains the focus on a model building approach to the subject (Figure 1).



**Figure 1.** The focus and position of the study.

#### 1.4. Previous literature

The field of literature about corporate responsibility and its strategic implications are very diverse. It seems that there are two main schools that have a wholly different approach to the subject. The first school approaches from the market orientated perspective, and the other school has an ethical approach to the subject. Also Dobers and Wolff (2000) identify these two discourses. They call these two discourses the shareholder value (SHV) and sustainability.

The SHV has similarities to the free market school, and could be described with Milton Friedman's famous phrase 'the business of business is business'. "This position implies that all company actions should be sub-optimized according to a simple philosophy: We raise capital to make concentrate and sell it at an operating profit. Then we pay the cost of capital. Shareholders pocket the difference" (Coca-Cola's former CEO Roberto Goizueta in the article of Dobers and Wolff 2000). Dobers & Wolff (2000) see this SHV perspective as a US-based notion.

In the counter position called sustainability, the "SHV is treated from an ethical basis, claiming a holistic economic approach including environmental, social, and financial objectives" (Dobers & Wolff 2000). In the extreme end of the continuum, a purely environmentalist perspective can be found. In this Nordic-European based notion, the SHV is a subordinate category to nature's demands on ecologically adopted economic systems (Dobers & Wolff 2000). The stance of this study is in between the SHV and ethics scholar, by approaching corporate responsibility and its strategic implications from a stakeholder perspective.

The previous literature – both in qualitative and quantitative side – has mainly dissected the relationship between corporate responsibility and economic performance. A significant disagreement is prevailing in the literature on the competitive outcomes of CR strategies.

In the qualitative side of research, the *CR economics* literature sees the environmental actions as only additional costs for firms that lead to an argument of seeing CR as a non-productive asset. On the other side of the coin, the *CR marketing and management* literature sees CR actions as long term investments that can be beneficial in the long run. McWilliams, Siegel and Wright (2005) have listed extensively the theoretical papers on CR from 1970 to 2005 (Table 1). The study by McWilliams and Siegel (2001) presented the supply and demand perspective to CR and is significant for this study. An addition to the table, Porter and Kramer (2006) dissected the link between competitive advantage and corporate responsibility in a rather consultative way and made few important notions concerning strategic CR, however the analysis remained on a very generic level. In Finland, Lähdesmäki (2005) dissected how small Finnish entrepreneurs see corporate responsibility relating to competitive advantage and found out that the whole concept is rather blurry for them and has a negative tone.

Other than these, studies do not seem to have a model building approach to the subject, lacking explanation of how corporate responsibility can be used as a strategic tool. Therefore, this study has a slightly explorative nature and a more holistic view to the phenomenon of strategic CR. The strategy literature is mainly based on Näsi (1996), Mintzberg, Ahlstrand & Lampel (1998), Porter (1980, 1985, 1996, 2006), and Peng (2006). The image and reputation literature is mainly based on Miles & Covin (2000), Pruzan (2001), Siltaoja (2006). The

corporate responsibility literature is mainly based on van Marrewijk (2003), Ketola (2005, 2007, 2008), Cramer (2005), and Dobers & Wolff (2000). In addition there are relevant articles to fill the gaps and to cover all parts of the study.

Despite a great number of studies, the field of hermeneutical research is lacking in theoretical models about how corporate responsibility interacts with strategic implications, and how they have been implemented in companies.

**Table 1.** Theoretical papers on CR (McWilliams, Siegel and Wright 2005).

<b>Author(s)</b>	<b>Nature of Theoretical Perspective(s)</b>	<b>Key Argument/Result</b>
Friedman (1970)	Agency Theory	CSR is indicative of self-serving behavior on the part of managers, and thus, reduces shareholder wealth.
Freeman (1984)	Stakeholder Theory	Managers should tailor their policies to satisfy numerous constituents, not just shareholders. These stakeholders include workers, customers, suppliers, and community organizations.
Donaldson (1990)	Stewardship Theory	There is a moral imperative for managers to “do the right thing,” without regard to how such decisions affect firm performance.
Donaldson and Preston (1995)	Stakeholder Theory	Stressed the moral and ethical dimensions of stakeholder theory, as well as the business case for engaging in CSR.
Jones (1995)	Stakeholder Theory	Firms involved in repeated transactions with stakeholders on the basis of trust and cooperation have an incentive to be honest and ethical, since such behavior is beneficial to the firm.
Hart (1995)	Resource-Based View of the Firm	For certain companies, environmental social responsibility can constitute a resource or capability that leads to a sustained competitive advantage.
Jennings and Zandbergen (1995)	Institutional Theory	Institutions play an important role in shaping the consensus within a firm regarding the establishment of an “ecologically sustainable” organization
Baron (2001)	Theory of the Firm	The use of CSR to attract socially responsible consumers is referred to as strategic CSR, in the sense that firms provide a public good in conjunction with their marketing/business strategy
Feddersen and Gilligan (2001)	Theory of the Firm	Activists and NGOs can play an important role in reducing information asymmetry with respect to CSR on the part of consumers.
McWilliams and Siegel (2001)	Theory of the Firm	Presents a supply/demand perspective on CSR, which implies that the firm’s ideal level of CSR can be determined by cost-benefit analysis.
McWilliams, Van Fleet and Cory (2002)	Resource-Based View of the Firm	CSR strategies, when supported by political strategies, can be used to create sustainable competitive advantage.
Waldman, Siegel, and Javidan (2005)	Theory of the Firm/ Strategic Leadership Theory	Certain aspects of CEO leadership can affect the propensity of firms to engage in CSR. Companies run by intellectually stimulating CEOs do more strategic CSR than comparable firms

Studies that dissect the relationship between CR and financial performance from quantitative perspective have been controversial: studies indicate no relationship (McWilliams & Siegel 2000), a positive relationship (Waddock &

Graves 1997; Russo & Fouts 1997), and a negative relationship (Wright & Ferris 1997; Cordeiro & Sarkis 1995). In a corresponding research conducted in the (Spanish) hospitality industry, the existence of a positive relation between the firm's economic performance and its management of its responsibility to the social and natural environment in which it operates was found (Carcía & Cruz 2007).

**Table 2.** Empirical papers of CR (McWilliams et al. 2005).

Author(s)	Methodology	Nature of CSR Event/Action	Key Results
Abowd, Milkovich and Hannon (1990)	Event Study	Human Resource Decisions	No consistent pattern of increased or decreased stock price
Worrell, Davidson and Sharma (1991)	Event Study	Layoff Programs	Investors react negatively to layoff announcements, especially when they are due to financial distress
Clinebell and Clinebell (1994)	Event Study	Plant Closures	Longer periods of advance notice of plant closings result in greater losses in shareholder wealth
Posnikoff (1997)	Event Study	Divestment From South Africa	Divestment enhanced shareholder value
Wright and Ferris, (1997)	Event Study	Divestment From South Africa	Divestment had a negative effect on shareholder value
Teoh, Welch, and Wazzan (1999)	Event Study	Divestment From South Africa	Divestment had a neutral effect on shareholder value
Aupperle, Carroll, and Hatfield (1985)	Regression Analysis	An Overall Firm-Level Index of CSR	There is a neutral relation between CSR and profitability
McGuire, Sundgren, and Schneeweis (1988)	Regression Analysis	An Overall Firm-Level Index of CSR	Prior profitability was more closely related to CSR than was subsequent performance
Russo and Fouts (1997)	Regression Analysis	Environmental Performance	There is a positive relation between environmental performance and financial performance
Waddock and Graves (1997)	Regression Analysis	An Overall Firm-Level Index of CSR –KLD Data	CSR results in an improvement in firm performance
McWilliams and Siegel (2000)	Regression Analysis	An Overall Firm-Level Index of CSR–KLD Data	There is a neutral relation between CSR and profitability
Hillman and Keim (2001)	Regression Analysis	“Social Issues” CSR and “Stakeholder Management” CSR – KLD Data	“Stakeholder Management” CSR is positively correlated with shareholder wealth creation (market value added); “Social Issues” CSR is not

### 1.5. Structure of the study

This thesis began with an abstract and introduction chapter. In the introduction the subject was at first described on a very general level. After this the aims and the research problem were proposed, setting a specific purpose to this research. Chronologically continuing, the following chapter was about definitions and

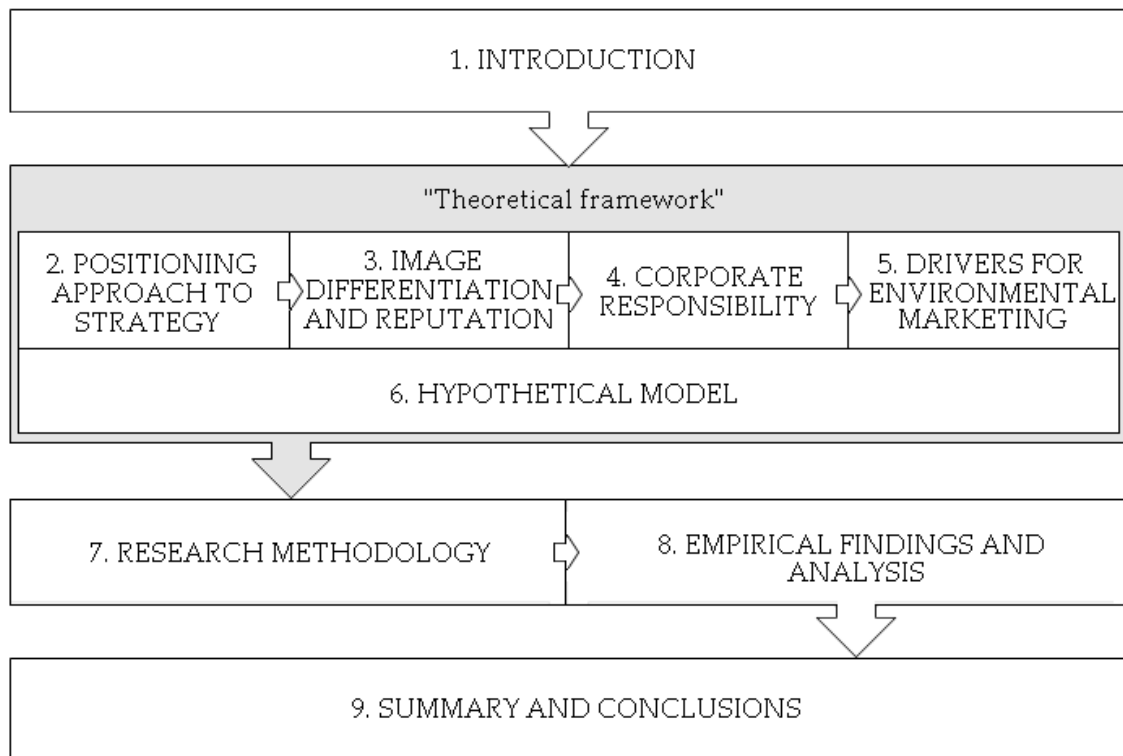
limitations that gave a preliminary understanding of the thesis for the reader. This was followed by presentation of the previous literature before this very chapter, the structure of this study.

The study is divided into nine main chapters. The introduction chapter is followed by theoretical framework, which consists of chapters from two to six. Since the subject is greatly a strategic issue, the chapter two gives a throughout introduction to strategic thinking and explains what is the chosen strategy approach for this study.

In the chapter three, the chosen strategy approach is dissected. The fourth chapter then presents corporate responsibility in detail and its strategic dimension. Chapter five then introduces more closely the environmental aspect to CR and discusses the drivers for it. The theoretical framework ends in chapter six concluding the most important information in to a hypothetical model. Until now the work is done only theoretically with a help of scientific releases, theories, and researcher's analytical skills.

In the seventh chapter the chosen method for the data collection and analysis is presented, as well as the procedure and evaluation of the research. The eight chapter displays the results and simultaneously analyses the collected data. The structure follows the themes that will be set in chapter six, the hypothetical model. The final chapter holds within the conclusion and summary of the thesis. These will be illustrated and explained with a revised model that aspires to give an solid and concise answer to the research problem. This study ends in managerial implications and in a brief of future research opportunities.





**Figure 2.** The structure of the study.

## 2. POSITIONING APPROACH TO STRATEGY

The purpose of this chapter is to give a preliminary understanding of the basics of strategic thinking in corporations. In addition this chapter presents the chosen strategy approach for this study and explains how it relates to corporate responsibility.

### 2.1. Introduction to strategic thinking

As the legendary parable of *The Blind Men and the Elephant* by John Godfrey Saxe (1816-1887) points out, there are multiple ways of looking at everything. One way of seeing or thinking is no better, nor more correct than the other ones. This same rule applies when dissecting corporate strategies. There are almost as many definitions for strategy, as there are strategists. To start the unwrapping of the concept, strategies are ought to be divided in different schools of thought. Näsi (1996) has made an extensive categorizing of the four main category approaches to strategic thinking, which are illustrated in table 3.

At a glance the table tells the reader three things. Firstly, it looks like the development in the 80's must have been extremely productive as well as diverse. Classification would not have been possible without large bank of material. Secondly, the lists of each four approaches are more or less related. All the four windows into the world of strategy schools show similarities in this evolution process of strategic thinking (see Table 3). But thirdly and foremostly, each approach still has its own way of thinking and seeing strategy. (Näsi 1996: 30-31.)

Instead of exploring the differences within scholars, the common denominators are sought. It seems that in the beginning of strategic thinking, all the scholars believed sturdy on analyzing, planning and implementing strategies. In other words, they were more concerned with how strategies should be formulated than with how they necessarily did form (Mintzberg et al. 1998: 5). Then the next generation of strategic scholars, steamrolled the old and the focus moved towards increasing the understanding and descriptions of the strategy process. This was due to the change in the business environment. The corporate playgrounds became more dynamic and complex than ever before and the

master planning was probably thought to be too slow and expensive. The most recent approach to strategy combines all the previous schools into one holistic view.

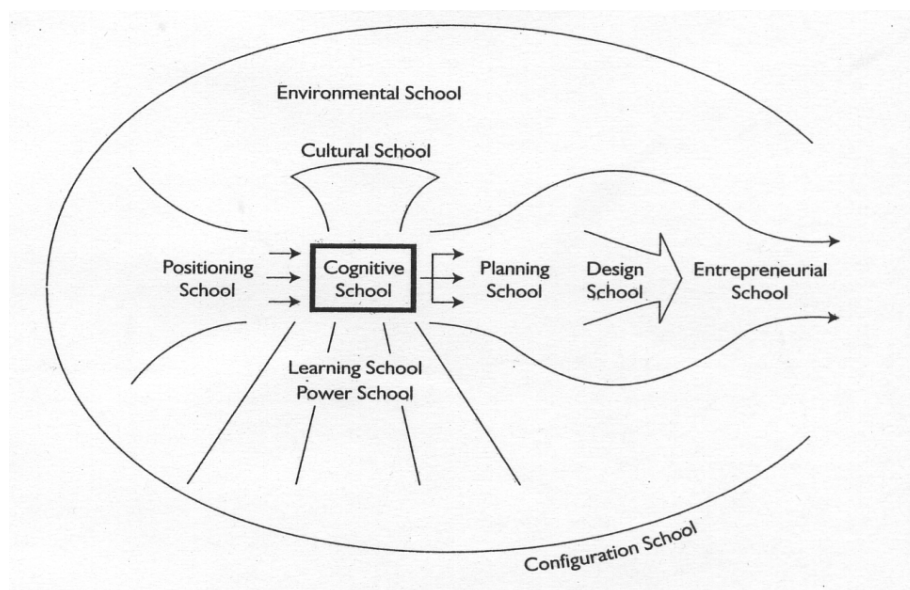
**Table 3.** Four windows into to world of strategy schools (Näsi 1996: 30).

<p><b>MINTZBERG 1990 (CAN)</b></p> <ol style="list-style-type: none"> <li>1. The Design School</li> <li>2. The Planning School</li> <li>3. <i>The Positioning School</i></li> <li>4. The Entrepreneurial School</li> <li>5. The Cognitive School</li> <li>6. The Learning School</li> <li>7. The Political School</li> <li>8. The Cultural School</li> <li>9. The Environmental School</li> <li>10. The Configurational School</li> </ol>	<p><b>GILBERT, HARTMAN, MAURIEL, FREEMAN 1988 (USA)</b></p> <ol style="list-style-type: none"> <li>1. The Harvard Policy Framework</li> <li>2. The Portfolio Framework</li> <li>3. <i>The Competitive Strategy Framework</i></li> <li>4. The Stakeholder Management Framework</li> <li>5. The Planning Process Framework</li> <li>6. The Seven S Framework</li> </ol>
<p><b>KARLÖF 1987 (SWE)</b></p> <ul style="list-style-type: none"> <li>* The Experience Curve</li> <li>* The BCG Matrix</li> <li>* Market Attractiveness / Strategic Position</li> <li>* The Mysigma Profitability Graph</li> <li>* PIMS</li> <li>* <i>Porter's Generic Strategy</i></li> <li>* GAP-analysis</li> <li>* The Product / Market Matrix</li> <li>* Problem Detection Studies</li> <li>* McKinsey's 7 S model</li> </ul>	<p><b>NÄSI 1987 (FIN)</b></p> <ol style="list-style-type: none"> <li>1. Analytical System of Strategic Management or Ansoffism</li> <li>2. Planning Process Approach</li> <li>3. Portfolio Management</li> <li>4. Business Idea School</li> <li>5. <i>Competitive Strategy Formation or Porterism</i></li> <li>6. Excellence and Cultural Approach</li> <li>7. Mintzbergism</li> </ol>

Mintzberg et al. (1998) distinguish and define these three phases in the evolution process, as follows. The first schools in the time line - Design, Planning and Positioning school (see Table 3) - form together the prescriptive school. The next six schools: Entrepreneurial; Cognitive; Learning; Power; Cultural; Environmental; and Configuration School have a more descriptive nature and are thus categorized as one, called the descriptive school. Lastly, the

combination of all is named the integrative school, also known as the Configurational school, or as Näsi (1996) puts it, mintzbergism.

This configuration approach introduces the strategy formation as a process of transformation, in which all the different approaches are placed. "Each school has its own time, in its own place" (Mintzberg et al. 1998: 302). This kind of mentality is very healthy for the academic field, since oftentimes one size does not fit all. Instead of arguing whose point-of-view is the best, mintzbergism understands and explains the fact that all the different environments, firms and situations require a unique and tailor-made approach for each occasion. In the figure 3 the strategy process is illustrated. At issue terminology by Mintzberg et al. (1998) is used throughout this thesis because of its informative and clear definitions.



**Figure 3.** Splitting the process (Mintzberg, Ahlstrand & Lampel 1998: 371).

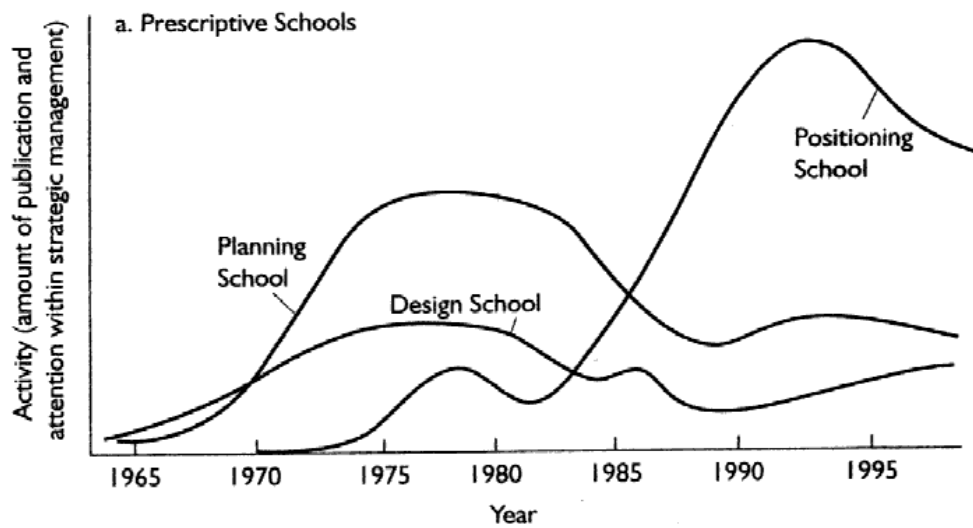
In an ideal situation all of these viewpoints are dissected, however, in this case it is unfeasible and unsuitable. Therefore only the most expedient strategic approach is chosen to meet the purpose of this study.

The positioning school is based on the design (the 1st of prescriptive) and the planning school (the 2nd of prescriptive). The design school, which was presented already in the 1960s, focuses on the strategy formulation as a process

on informal design, essentially one of conception. At its simplest, the design school tries to find a fit between external possibilities and internal capabilities. Mintzberg et al. (1998: 24) suggest that the book *Business Policy: Text and Cases* (1965) by Learned, Christensen, and Guth) was the real impetus for the design school. According to Näsi (1996: 32) the article of Peters and Waterman (1982) *In Search of Excellence* has had one of the strongest influences on the rise of this school, and thus triggered a huge amount of scientific research concerning strategic thinking. In any case, another school called the planning school arose at the same time as did the design school. This school of thought considers strategy making as a more detached and systematic process of formal planning. The most influential book could have been *Corporate Strategy* by H. Igor Ansoff published in 1965. As mentioned earlier, the two first schools of prescriptive strategy thinking created the base for the positioning school to arise. The positioning school is less concerned with the process of strategy formation than with the actual content of strategies - yet still considers the strategy formation as an analytical process. This approach focuses on the selection of strategic positions in the economic marketplace, and industry environment. The concept of competition plays a significant role in the Positioning school thinking. Continuing the heritage of Harvard Business School, Michael E. Porter has been the most famous exponent and developer of this approach. His books *Competitive Strategy* (1980) and *Competitive Advantage* (1985) culminate in the window of generic strategies. (Karlöf 1995; Näsi 1996; Mintzberg et al. 1998)

In the next figure (Figure 4) is shown the timeframe for these three strategic approaches (x-axis) and the activity level, explaining the amount of publication and attention within strategic management.

The graph (Figure 4) shows the great attention the positioning school achieved after Michael Porter wrote the *Competitive Advance* (1985), and even on the 21st century it still remains highly influential. It is important not to forget the significant groundings the planning and design school produced in the late 60s till the late 80s.



**Figure 4.** Timeframe for prescriptive schools (Mintzberg et al. 1998: 353).

## 2.2. Positioning school

In order to interpret and apply a theory, it is vital to understand the premises each approach holds within. Among others, Mintzberg et al. (1998: 85), list the following terms for the positioning school to function: strategies are generic, specifically common, and identifiable in the marketplace; that marketplace (the context) is economic and competitive; the strategy formation process is therefore one of selection of these generic positions based on analytical calculation; analysts play a major role in this process, feeding the results of their calculations to managers who officially control the choices; and lastly, strategies thus come out from his process full blown and are then articulated and implemented - in effect, market structure drives deliberate positional strategies that drive organizational structure.

These premises demarcate strictly the usage of positioning approach. Thus this is a major disadvantage for the positioning school, in its purest form. Mintzberg et al. (1998: 112-113) contend that the focus of the positioning school has been narrow. And continue: "It is orientated to the economic and especially the quantifiable as opposed to the social and the political, or even the nonquantifiable economic. Even the selection of strategies can thereby be biased simply because cost leadership strategies generally have more hard data to back them up than, say, strategies of quality differentiation".

Miller (1992) alleges in his article *The Generic Strategy Trap* that there are numbers of dangers associated with the exclusive pursuit of a single generic strategy. He explains that strategic specialization may leave serious gaps in product offerings, ignore important customer needs, and be easy for competitors to counter, and, in the long run, cause inflexibility and narrow an organization's vision.

Another concern is the narrow context of the viewpoint. There is a bias toward traditional big business industries, where the market power is the greatest, competition the least effective, and the potential for political manipulation most pronounced. This positioning approach leaves out niche strategies and fragmented industries. (Mintzberg et al. 1996: 113.)

Mintzberg et al. (1996: 115) adds that the message of the positioning school is to stay at home and calculate, instead of getting out there and learn. The criticism thus concerns the undertermination of the strategic learning. In addition, the analyzing of the surroundings is time consuming and expensive, without forgetting that the received information can already be outdated. However, strategy analysis would appear to be appropriate for strategy making when, and where, conditions are sufficiently established and stable.

Even though the positioning school and Porter have received a whole bunch of criticism, it still can be considered highly influential in strategic field. It is understandable that a theory at the age of twenty-nine, raises an eyebrow or two. And actually, a researcher should be proud of the faced criticism, because it is a sign of interest and importance of the theory (Uusitalo 1991: 29). If we look back in time, great changes in the business life have taken place within the timeframe of thirty-years. Internet and global markets, just as a few to mention. Still the Positioning school is recognized on every continent, both by the business sector, as well as by the academia. On the other hand, Näsi (1996: 36) states that the great attention Porter has received could be due to that he has just arrived at the right time and right way. He continues by explaining that the previous research left a vacuum with a need for a great social order: where to find a person who could combine in his way the theoretical material hanging in the air and the practical strategic decision making situation? Be that as it may, Porter is given credit for creating a framework which offers both strategic, in the more theoretical sense, and practical solutions. His work gives a clear and

simplified view of the strategic process, which makes it rather easy to develop, modify, and apply. Näsi (1996: 37) agrees that Porter has an ability to condense the core ideas consisting of the most complicated entities into frameworks. A great number of research and testing have been done concerning the frameworks of the Positioning school. This certainly increases the reliability of the theory.

In the upcoming table (Table 4) the main five premises, advantages and disadvantages of the positioning school are presented. Notice that this is not the famous Porter's Five.

In "pure" porterism, by adeptly pursuing cost leadership, differentiation or focus strategies businesses can achieve significant competitive advantage over their rivals. (Porter 1980; 1985.) Regardless to that, this thesis does not suggest firms on concentrating on a single generic strategy. A mixed approach is seen more preferable, where the role of the three generic strategies and positioning is to support the strategy making process, not to necessary be it. Yet the importance of the positioning strategy as a ground base for businesses cannot be denied. Also in the holistic approach, also known as the Configuration school, the purpose of the Positioning school is recognized. This research paper adopts the holistic view on the strategic thinking, where each approach has its own time and place (see Figure 2). However, since the strategy process is more lucid to dissect in parts, this thesis focuses only on the positioning approach to strategy.



**Table 4.** The five premises, disadvantages and advantages of positioning (adapted from Mintzberg et al. 1996; Mintzberg et al. 1998; & Miller 1992).

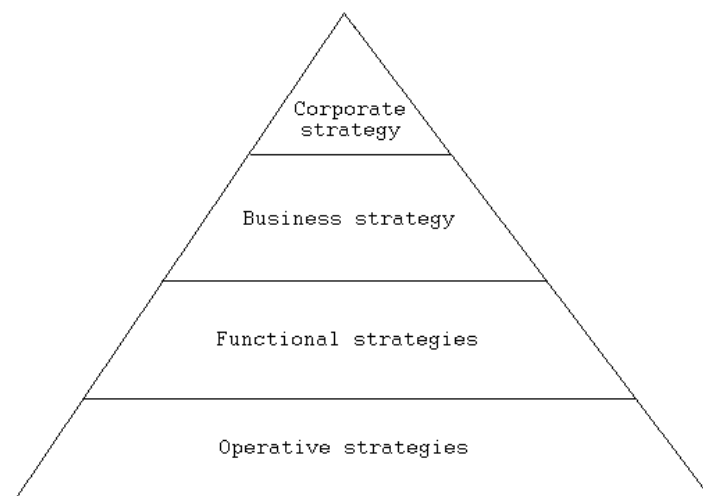
<b>Five premises</b>	<b>Five disadvantages</b>	<b>Five advantages</b>
1. Strategies are generic, specifically common, identifiable positions in the marketplace. (Mintzberg et al. 1996.)	1. The usage is demarcated rather strictly. See premises.	1. Highly recognized and highly influencing in both business life and academia.
2. That marketplace is economic and competitive. (Mintzberg et al. 1996.)	2. The focus is narrow and dependent on large quantities of data. (Mintzberg et al. 1996.)	2. A great number of research and testing in the past decades.
3. The strategy formation process is therefore one of the selection of these generic positions based on analytical calculation. (Mintzberg et al. 1996.)	3. The single strategy mentality causes inflexibility and narrows organizational vision. (Miller 1992.)	3. A clear and simplified view of the strategy process.
4. Analysts play a major role in this process, feeding the results of their calculations to managers who officially control the choices. (Mintzberg et al. 1996.)	4. The narrow context, bias towards big businesses. (Mintzberg et al. 1996.)	4. The framework offers both strategically theoretical and practical solutions.
5. Strategies thus come out from this process full blown and are then articulated and implemented; in effect, market structure drives deliberate positional strategies that drive organizational structure. (Mintzberg et al. 1996.)	5. The process underterminates strategic learning (Mintzberg et al. 1998) and is rather static.	5. Easy to apply and modify.

### 2.3. Competitive advantage and strategy

Tougher competitive conditions in recent years have put more pressure on firms to examine their competitive strategies and advantages (Burke & Logsdon 1996). The definitions of these concepts are very researcher-related. But continuing with the positioning school of thought, "competitive strategy is about being different" (Porter 1996). In other words, Porter argues that companies should deliberately choose a different set of activities to deliver a unique mix of value.

Miles and Covin (2003) explain that this competitive advantage is about finding a competitive position in an industry, the fundamental arena in which competition takes place. The reached competitive advantage results in performance outcomes that include: superior customer satisfaction; customer loyalty; market share; and enhanced financial performance (Miles & Covin 2003). Hence the purpose of competitive strategy can be seen as the creating of a profitable and sustainable position against competitors.

As seen in the becoming figure (Figure 5), there are several levels at which strategy is devised in a firm: corporate, business, functional, and operative level. The content of strategy depends greatly on the level, on which the strategy is discussed (Lahti-Nuuttila 2000: 35). The higher level strategies define the objectives for the lower lever strategies (Ansoff 1984).



**Figure 5.** Hierarchy of strategies (Thompson & Strickland 1996: 31).

On the corporate level the objective can be as simple as to make profit. This level usually covers questions that relate to the selection of business strategies, in which business strategies the company will involve and which ones it will develop. That is to say, the business strategies are chosen at the corporate level, defining the guidelines how to make profit. These strategies often concern the development of competitiveness in certain product or market segments. The functional strategies consist of different functions such as financing, marketing, and research and development. (Lahti-Nuuttila 2000; Thompson & Strickland 1996; Hulbert 1985.)

According to Lahti-Nuuttila (2000: 36), the competitive features of a firm are emphasized on the business strategy level, where the important considerations are the needs of customers and the operations of competitors, among others (Lahti-Nuuttila 2000: 36). Probably the most well-known strategic tool in the dissection of competitive strategy is structural analysis by Michael Porter (1980, 1985), which will be introduced briefly.

There are two main questions all companies should consider when making decisions concerning their business level strategy. The first is the attractiveness of an industry for long-time profitability and the second is the competitive position. However, neither one these factors itself is to guide a company toward a great competitive strategy. A well done positioning does not help in an industry which is not profitable. And vice versa, the high profitable industry will not be profitable in favour of a company, if the competitive position is chosen poorly. (Porter 1985.) These two questions are looked at through general and corporate responsible eye-glasses.

#### 2.4. Structural analysis of industries

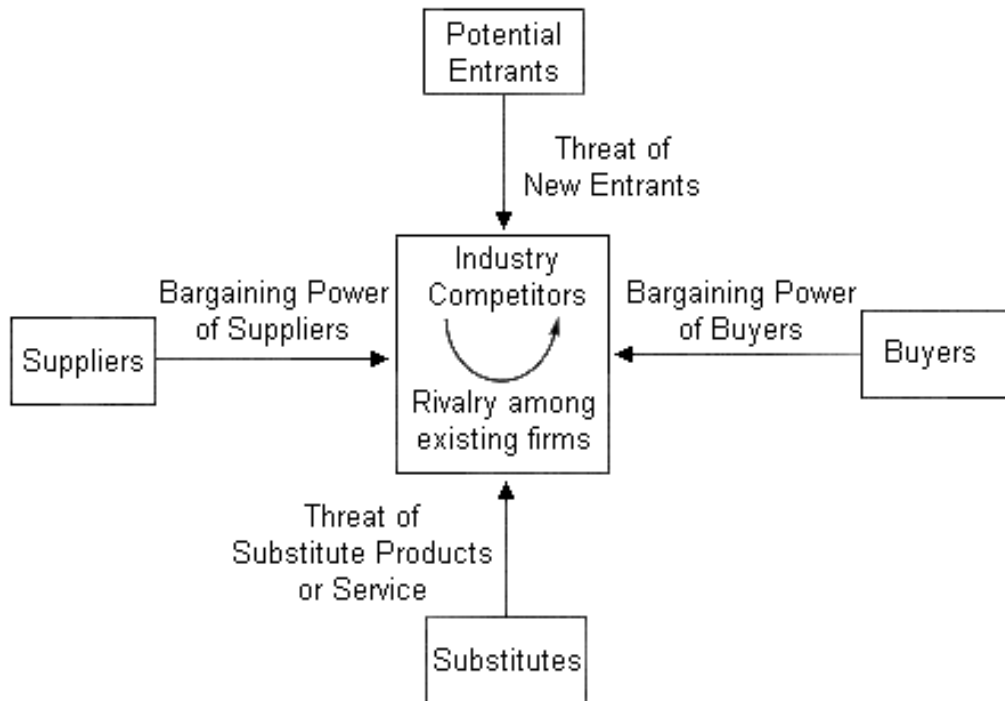
The understanding of these industry-based considerations is essential and the foundation in the search of competitive position and advantage. Firstly, not all industries are equal in terms of their exposure to CR challenges. "Energy- and materials-intensive industries (such as chemicals) are more vulnerable to environmental scrutiny" (Peng 2006: 495). These industries, such as mining, have a direct and vast impact on the natural environment and are closely watched by environmental activists and institutions. "Labour-intensive

industries (such as apparel) are more likely to be challenged on fair labour practice grounds" (Peng 2006: 495). Even though this might be the situation today, an assumption this thesis makes is that all the industries are becoming more vulnerable, and over time no business environment will have immunity to CR concerns. Living proofs of this are the high CR involvement in industries such as ice cream (Ben & Jerry's), beauty (Body Shop), and technology (Hewlett-Packard), and actually these are the best practises and leading companies in the whole CR field (Kotler & Lee 2005). More information about these companies is available on their websites. Secondly, instead of seeing the threats as problems to business, these threats should be seen as possibilities to enhance the competitive strategy. The ways of doing this, could be via differentiation and building a good corporate image. "The most proactive managers and the companies they lead are far-sighted to embrace CSR challenges through selective, but pre-emptive, investments and sustained engagement - in essence, making their CSR activities a source of differentiation as opposed to an additional item of cost" (Peng 2006: 495).

Porter's (1980) model of competitive analysis creates a foundation to analyze the industry in which firms operate. The purpose of this analysis is to understand the external conditions well enough to make strategic decisions on the internal strategies. Five separate forces are identified in an organization's environment that influences competition. The strength of the five forces varies from industry to industry, and changes over time as the industries are also dynamic. The combined strength of these five forces determines the ability of firms in an industry to create competitive advantage. These five forces determine industry profitability because they influence the prices, costs, and required investment of firms in an industry - the elements of return on investment (Porter 1985: 4). The five fundamental competitive forces can be neatly put in a figure to demonstrate the attractiveness of an industry.

*Threat of new entrants* The threat of entry sets a limit on prices, and shapes the investments required to deter entrants. This is affected by the ability of newbies to enter the market in question. If the entry has low costs and requires little in time to a firm's market and compete effectively, if there are few economies of scale in place, or if a firm has low protection for its key technologies, then new competitors can quickly enter your market and weaken the competitive position. If the company, however, has strong and durable barriers to entry,

then it is likely to preserve a favourable position and take fair advantage of it. (Porter 1985.)



**Figure 6.** Five competitive forces (Porter 1980: 4).

Peng (2006: 492) suggest that being a first mover in pollution-control technologies can create entry barriers for new entrants. And instead of reducing pollution or emission, the prevention and more proactive role are the most effective way to create entry barriers for competition.

*Bargaining power of firm's suppliers* This power of suppliers determines the costs of raw materials and other inputs. A firm assesses how easy it is for suppliers to drive up prices. This is driven by the number of suppliers of each key input, the uniqueness of their product or service, their strength and control over a firm, the cost of switching from one to another, and so forth. The fewer the supplier alternatives a company has, and the more a company is reliable on its suppliers, the more powerful the suppliers are. (Porter 1985.)

If socially and environmentally conscious suppliers provide unique, differentiated product and services with few or no substitutes, their bargaining

power is likely to be substantial (Peng 2006: 494). Coca-Cola as an example, where bargaining power of the firm is very low. The beverage company is thus able to assert its bargaining power by requiring that all of its bottlers certify that their social and environmental practices are responsible. (Peng 2006: 494.)

*Bargaining power of firm's customers* Buyer power influences the prices that firms can charge. How easy it is for buyers to drive prices down, or conversely, how easy it is for firms to bring prices up without a drastic change in the sales. This force is driven by the number of buyers, the importance of each individual buyer to the business, the cost to them of switching from your products and services to those of someone else, and vice versa. As a practical example, if a company is dealing with few, powerful buyers, they are often able to dictate terms to the company. This applies also the other way around. (Porter 1985.) The Shell case in the 1995 is a great example of the bargaining power of customers. When Shell decided to sink an oil platform in the North Sea, the reaction of individual consumers led to strong protests organized by Greenpeace, which again led to an 11 percent drop in Shell gas station sales in one month. Such pressures forces Shell to reverse its decision. (Peng 2006: 494.)

*Threat of substitute products* As well as buyer power, the threat of substitutes also influences the prices that firms can charge. This force is affected by the ability of another company to find a different and alternative way of doing what the first company has done – for example, if a firm supplies a product that exploits natural resources, someone may substitute by doing the process environmental friendly. Or a classical example of substitution is the fax machines replaced with e-mail services. If substitution is easy and substitution is viable, then this will weaken the company's power. (Porter 1985.) If substitutes are superior to existing products and services, and costs are also reasonable, they may attract more customers. Although most consumers might choose a good with CR attributes if its price were equal to that of another good and many might choose a good with CR attributes if its price were only little higher, some consumers will switch away from the CR good if there is a substantial price difference (McWilliams 2001). Overall, the possible threat of substitutes requires firms to observe the environment, instead of narrowly focusing on the focal industry (Peng 2006: 495).

*Intensity of rivalry among competing firms* The intensity of rivalry influences prices and costs of competing. Examples of this are in availability of R&D, advertising, and sales force. The key is the number and capability of the competitors. If a company has many competitors, and they offer equally attractive products and services, then a company is most likely to have a little power in the situation. If suppliers and buyers are not satisfied they will chance to the competitor's products and services. On the other hand, if no other player in the industry is able to replicate and become a serious competitor, then the firm can have tremendous strength. (Porter 1985.)

"The more concentrated the industry is, the more likely that competitors will recognise their mutual interdependence based on old ways of doing business that are not up to the higher CSR standards" (Peng 2006: 492). In other words, this statement means that, if a particular industry or market is lucrative, more firms will want to get involved to benefit from the potential profits. As the number of competition increases, to increase differentiation and the attractiveness of a company image, each competitor will pursue to be the most socially responsive by being involved in activities that put the local environment at the centre of their strategic business plan. With a low rivalry in an industry companies can resist CR. A good example of this was the car industry in the United States, when the Big Three carmakers formed an ally with oil industry to stay out of CR. They lobbied politicians, challenged the science of global climate change, and pointed the high costs of reducing emissions (Peng 2006: 429). With low rivalry this can be possible for some time, however, when the amount of rivalry increases, it becomes more difficult to stay away from the CR pressures.

## 2.5. Generic competitive strategies

Competitive advantage is about gaining and adding value for a firm, and importantly, in a way that is less expensive than the cost of creating it. "Value is what buyers are willing to pay, and superior value stems from offering lower prices than competitors for equivalent benefits or providing unique benefits that more than offset a higher price" (Porter 1985: 3). The positioning school's way of seeing is that firms must either gain cost advantage or differentiate themselves. These two basic types of CAs are combined with a competitive

scope dimension, which leads to the three generic strategies of achieving competitive advantage: cost leadership, differentiation, and focus. A firm must make a choice of which strategy to follow because trying to offer "all things to all people" a firm usually ends up with no CA at all. (Porter 1985: 12.) In porterism this is often referred to 'stuck in the middle' situation.

**Table 5.** Three generic Strategies (Porter 1985: 12).

Competitive scope	Competitive advantage		
		Lower cost	Differentiation
	Broad target	1. Cost leadership	2. Differentiation
	Narrow target	3A. Cost focus	3B. Differentiation focus

**Cost leadership.** Cost leadership is probably the tersest and well known of the three generic strategies. Executing this form of strategy a firm has chosen to become the low-cost player in its industry. The modes in which the CA is gained through cost efficiency are limited. It often requires a high relative market share or other sources of cost advantage, as an example it may include the pursuit of economies of scale, patented technology, distribution channels, or preferential access to raw materials. In order to succeed, a low-cost firm must seek and exploit all the possible factors to offer the lowest price. These types of companies typically sell a standardized product or unambiguous service to maximize the inexpensivity. (Porter 1985: 12-14, 62-64.)

The rivalry among the competitors who have chosen the same strategy may be fierce. The logic of this strategy usually requires a firm to be *the* cost leader, instead of being of one the low-cost companies among the others. Many firms have had troubles recognizing this error in their strategy and performance, which has led them in to an early grave. (Porter 1985: 13.)

**Differentiation.** How can a company differentiate itself from its competitors? The second out of three generic strategies, differentiation, will be the one under



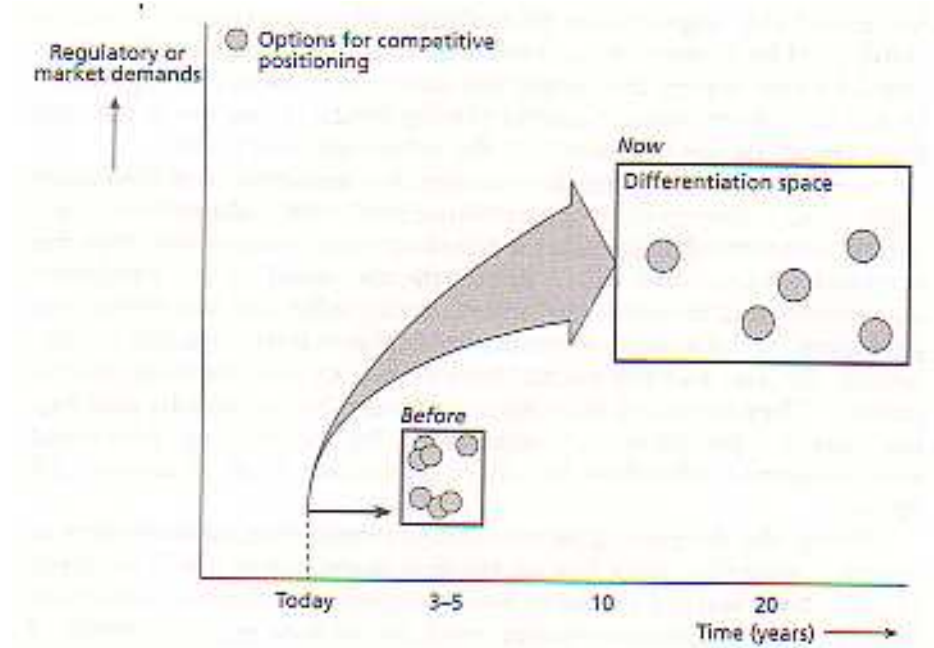
more specific examination in this research. In this form of strategy to gain competitive advance, a company endeavours to be unique in its industry along some dimensions that are widely valued by buyers. In order to succeed, the company selects one or more attributes that a group of buyers in an industry appreciates and values as important. (Porter 1985: 14.)

*Sources of differentiation* The mission is to provide something unique that buyers value and are therefore inclined to do business with a firm. This allows the firm to command a premium price, to sell more of its products at a give price, or to achieve benefits such as greater customer loyalty. And later on, the term premium is to refer all these benefits of differentiation.

Differentiation can be based on the product itself, the delivery system by which it is sold, the marketing approach, and a broad range of other factors (Porter 1985: 14). The purpose of differentiation for a firm is to achieve an above-average performer title in its industry, thus be rewarded with consumers' willingness to pay extra for the costs of a firm's uniqueness. Therefore, the company must seek for ways, to be unique, that lead to a price premium greater than the cost of differentiating. (Porter 1985: 14.)

Porter argues (Porter 1985: 119) that despite the importance of differentiation, its sources are often not well understood. The sources of potential differentiation are seen too narrowly and that differentiation of a firm should go beyond the psychical product or marketing practices. According to this school of thought, the options and sources for differentiation are therefore almost limited. And "to avoid the commodity trap, marketers must start with the belief that you can differentiate anything" (Kotler & Armstrong 2006b: 318).

*Differentiation space* The environmental responsibility is increasingly offering companies new opportunities for differentiating themselves from competition, and thus, ultimately, of providing stakeholders with more value. It is obvious that space of differentiation is expanding. Winsemius and Guntram (2002) present two dimensions which explain the expansion. The differentiation space concept is represented graphically in figure 7, where on the vertical axis are the evolving regulation and market expectations, and on the horizontal axis is the time in years. (Winsemius & Guntram 2002.)

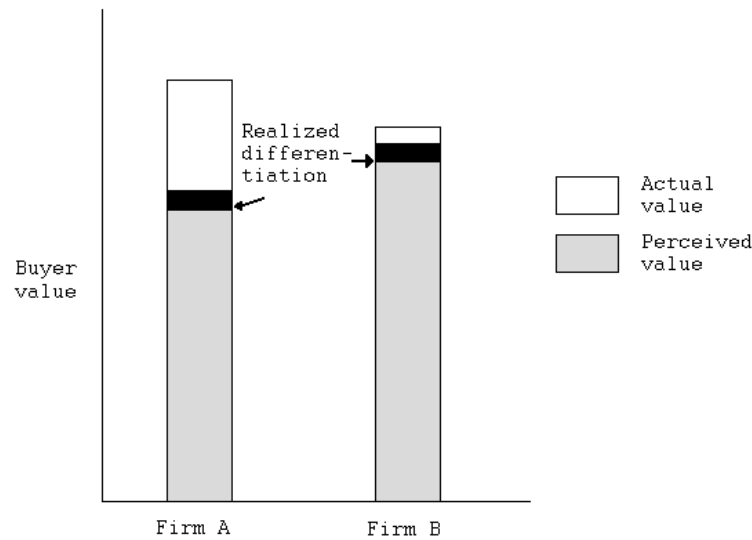


**Figure 7.** The differentiation space (Winsemius & Guntram 2002: xiv).

The expansion happens in both dimensions: "companies are under greater pressure to respond, and have to look further ahead to scan the environmental horizon to search for opportunities and threats to their competitive position. However, this expanding space also means that companies have greater freedom to develop proper strategic responses. In other words, the differentiation opportunities are growing" (Winsemius & Guntram 2002).

*Buyer perception of value* The addition value that is created through differentiation must be visible. The buyers must be aware of the offered value, in other words they will not pay for value that they do not perceive. It does not matter how real or worthy this value is. Thus, the premium price what the firm proffers will reflect both the value actually delivered and the extent to which the buyer perceives this value. (Porter 1985: 138-140.) The only level that matters is therefore the received and experienced value of the buyer. This is illustrated in the following figure (Figure 8).

As well as any form of differentiation, CR differentiation to be successful, potential stakeholders must be fully aware of the CR characteristics. (McWilliams 2001.)



**Figure 8.** Actual versus perceived buyer value (Porter 1985: 140).

*Risks of differentiation* To carry off a differentiated strategy, so that it leads to an increase in competitive advantage, a firm must become familiar with the risks of differentiation. Porter pointed out in his book; *Competitive Advantage* (1985), one of the main problems in differentiation is the lack in its sustainability. When the differentiation is not sustained, the competitors are likely to imitate and the bases for differentiation become less important to buyers (Porter 1985: 21).

Industries in which several strong firms are pursuing differentiation strategies based on different sources of buyer value are often particularly profitable (Porter 1985: 21). Actions of a firm that are socially responsible, in a form of taking care of the environment for example, will affect the whole industry. If the competitors find the more 'ethical' way of doing business more profitable and see it as a factor for gaining competitive advantage, most likely, they will pursue to imitate it. Looking from a firm's perspective, "if two or more firms choose to pursue the same generic strategy on the same basis, however, the result can be a protracted and unprofitable battle" (Porter 1985: 22).

*Cost of differentiation* To aim at differentiation can usually become pricey. There will be unexpected costs from the transfer and establishing something new. For example, in a case of image differentiation the transfiguration is normally costly. Uniqueness also requires often that the firm performs better than

competitors. The source of uniqueness requires hard cash to engender, whether it is quality in product, superior distribution, high-technology, skilled sales force, or corporate social activities. The main idea behind differentiation is that the costs will not become greater than the benefits of the differentiation.

**Focus.** The final type of strategy is quite different from the other two because it rests on the choice of a narrow competitive scope, as seen in the figure 3. In this strategy a firm focuses on a particular interest group, segment, or geographical market area. A focuser company selects and tailors its strategy to suite a specific, usually small target, to the exclusion of others. Herewith the company enables the execution of its focusing strategy and is able to serve its narrow strategic target more effectively or efficiently than competitors who are competing more broadly. (Porter 1985: 15-16.)

Porter (1985) assorts two variants from the focus strategy: cost focus and cost differentiation. In *cost focus* a company aspires to a cost advantage in its target segment, while in *differentiation focus* a company aspires to a differentiation advantage. Both of these strategies rest on differences between a focuser's target segments. Another separating factor is that cost focus strategy attempts to exploit differences in cost behavior in some segments, while differentiation focus attempts to exploit the special needs of buyers in certain segments. The vision of the focuser is to gain competitive advantage by dedicating its strategy to the specific segments exclusively. A part of the competitors with a broader strategy may be underperforming for the needs of a specific target segment, for example in quality or distribution, which opens up a potential for a focuser. And reversed, a competitor may be over-performing, which again opens possibilities for a focuser to fulfill the needs of such segment and no more. (Porter 1985: 15.)

## 2.6. Conclusion

There are several ways to approach strategic thinking. Probably the most holistic is the configuration school, or mintzbergism (Näsi 1996: 30-31). This scholar combines all the previous schools into one solid view, in which "each school has its own time, in its own place" (Mitzberg et al. 1998: 302). The theory of Michael Porter's competitive strategy is classified to belong to the positioning

scholar (Mintzberg et al. 1998), where the focus is on the analysing the industry level environment, and making strategic decision based on the attractiveness of the industry. Five forces framework is the strategic tool for firms to continuously evaluate its business environment. (Porter 1980: 1985.)

Each industry has its own characteristics and reacts in a different way to external and internal changes. Also in the case of corporate responsibility (CR), not all industries behave in a similar way because of the non-equal exposure to CR challenges. Peng (2006) argues that industries with a close contact to environment are more likely to interact with CR issues. But industries such as food, IT, and cosmetics with their best CR practices (Kotler & Lee 2005) vitiate the argument a bit. Nevertheless, it seems that all the industries are becoming more vulnerable, and over time no business environment will have immunity to CR concerns.

According to the capabilities of a firm and conditions of an industry, one of the three generic strategies is chosen to be executed as a competitive strategy. The first of the generic strategies is cost efficiency, which may not be the one to pick out, if the purpose of the strategy is to create an environmental-friendly image. This is so because CR often requires additional financial inputs and therefore does not serve the ideology of cost efficiency. However, to some extent it is possible to save costs by being environmentally friendly, e.g. minimal consumption of energy and water. But if one of the three strategies must be chosen, the cost leadership by itself will not create a green image.

The second is differentiation, and the third is focusing strategy. Whether the differentiation is done with a broader or a narrower scope, it appears to be more suitable for CR actions. This is so, because in differentiation, a company seeks for ways to be unique (often beyond the psychical product) that lead to a price premium. (Porter 1980; 1985.) Besides, due to environmental responsibility, differentiation opportunities are growing (Winsemius & Guntram 2002). An important fact in differentiation is that only the received and experienced value of the buyer matters (Porter 1985: 138-140).

This chapter offered a stepping stone for the following chapters by explaining the fundamentals of strategic thinking. In addition this chapter presented the chosen strategy approach for this study and explained how it relates to

corporate responsibility. In the following chapters, the study continues deeper into the selected strategy choices.

### 3. IMAGE DIFFERENTIATION AND REPUTATION

As discussed in the previous chapter, differentiation is able to go beyond the physical product or tangible service. A company can use a differentiation strategy to differentiate for example its market offerings in personnel, channel, and image (Kotler & Keller 2006a: 319). The purpose of this chapter is to identify the important concepts that connect competitive advantage (CA) to corporate responsibility (CR). The focus is on the firm's reputation and image - an intangible method to differentiate services and products from competitors.

#### 3.1. Corporate reputation

Corporate reputation is an intangible asset that is heavily related to marketing and financial performance (Miles & Covin 2000). Pruzan (2001) presents two complementary perspectives to corporate reputation, and its relationship to success and credibility. The first of these is so called *pragmatic perspective* or managerial. It is based on financial rationality and it focuses on traditional notions of corporate success. The pragmatic perspective affects business leader greatly because of the growing expectations on behalf of their stakeholders. The second perspective can be said to be a *reflective perspective*. In comparison with the pragmatic perspective, the reflective perspective employs a broader repertoire of measures of corporate success and focuses on organizational identity rather than the corporate image. This reflective perspective is more concerned with the inherent character of the organization, instead of the outer appearance. The significance of the distinguishing done here is that merely focusing on the pragmatic perspective may not lead to the desired results. Pruzan (2001) found that supplementing the primarily 'external' image orientation of the pragmatic perspective with the 'internal' identity perspective can to increased corporate self-awareness; improved capability for reflecting on corporate identity; and to more realistic methods for measuring, evaluating, and reporting on the firm's impact on its stakeholders as a whole. In other words, the combination of the two perspectives may result in improved and more inclusive description of the organization and its performance, which will be necessary for organizations viability and success (Pruzan 2001).

Corporate public image is still the groundwork and therefore an intrinsic part of reputation creation. Siltaoja (2006b) distinguishes in her qualitative study *Value Priorities as Combining Core Factors between CSR and Reputation*, that reputation has six different sources from which it can be build upon: ethics and morality; history; efficiency; the product; public image; and human resource management.

Ethics and morality means reliability and responsibility in marketing communication such as reporting news and events truthfully. A firm's reputation is created also through the history of the corporation, such as how previous political events, CR actions, and issues or social traumas have been handled. Efficiency refers to the level of self-sufficiency and a firm's performance, and is closely associated with financial performance. Public image refers to the fact that a firm with a good reputation in this field enjoys stakeholders' trusts. The product is often linked to the quality and is regarded as one of the most important aspects of reputation because of its visibility. Human resource management (HRM) here is all about employee satisfaction. HRM is a highly influential factor in the framework of reputation and has a strong influence on the stories told about the company. (Siltaoja 2006b)

Gummesson (1998) refers all employees as part-time marketers of a firm and argues that their power is usually under-estimated in the creation of corporate reputation. (Siltaoja 2006b.) According to Siltaoja (2006b), public image refers first and foremost to the top managers in the firm – the Chief Executive Officer (CEO) in particular – and to the overall satisfaction of the service or product consumed. The media is the chief harbinger of these values to the pulse of the public. The statements, opinions, and actions will be published creating national visibility, at least. Brown and Dacin (1997) propose that what buyers know about the company, may influence their reactions to the company's products. Thus, attention must be paid to associations that people have.

### 3.2. Value theory

In recent years, corporations and researches have become increasingly interested in the concept of corporate reputation and how it relates to environmental responsibility (Hillenbrand & Money 2007). Branco and



Rodrigues (2006) understand corporate reputation as a fundamental intangible resource, which can be created or depleted as a consequence of the decisions to engage or not in corporate responsibility (CR) activities and disclosure. The external benefits of CR are related to its effect on corporate reputation, and firms with CR reputation may improve relations with external actors (Branco & Rodrigues 2006), such as consumers. In addition, a CR firm might attract better employees or increase employees' motivation, morale, commitment and loyalty to the firm (Branco & Rodrigues 2006). However, this requires that CR actions are also valued by the employees.

Siltaoja (2004) has found that corporate responsibility affects the reputation of a company, and thus also affects the corporate image. Kovács (2006) explains in his research that value advantages related to corporate environmental responsibility were also seen as related to the corporate image or to particular products. The study of Siltaoja (2006b) presents value priorities that "are influential in defining, firstly, the motives for CSR action and, secondly, the essence of a good reputation in the minds of the stakeholders". The second factor has a great underlying value. In other words, stakeholders' own value priorities determine whether they appreciate the environmental actions of a firm (Siltaoja 2006a). Therefore, the level and amount of CR actions shall be understood and agreed in the buyers' personal values.

An implication, that Siltaoja (2006b) suggests, is that CR and reputation are highly dependent on the context. She states that without knowing how people understand CR or reputation, it is impossible to evaluate these two. On the other hand, Hillenbrand and Money (2007) have found considerable similarity between these concepts of responsibility and reputation. This means that one way of measuring corporate responsibility could be the reputation.

### 3.3. A way to differentiate with image

A corporate image is an important variable that positively or negatively influences marketing activities (Kandampully & Suhartanto 2000). A good image, nurtured, protected and brought to full bloom can create a halo that will light up the personality the firm and the stock market. However, it is not an insurance against rough times ahead. Yet to cultivate a positive image and

maximize its inherent value, strengthens firm's position if the rough times hit. (Marconi 1997.)

It can be assumed that consumers and other stakeholders respond differently to corporate and brand images. Because of this, the result of the differentiated image must be parallel and agreed with the segment it is aimed at. A firm's differentiation may appeal to a broad group of buyers or only to a group of particular needs or values (Porter 1985: 120). Therefore, when differentiating the corporate level image, the marketing managers ought be sure that identity and image do not conflict with any of the stakeholders' interest.

Identity and image need to be distinguished, since they are both important in the process of a firm differentiating its image. Identity is the way a firm aims to identify or position itself, whereas image is the method the public perceives the firm and its products (Kotler & Armstrong 2006b: 321). To succeed, identity (a) establishes the product's character and value proposition, (b) delivers emotional power beyond a mental image, and (c) is carried through every available communication channels, such in ads, annual reports, brochures, catalogs, packaging, firm stationary, and business cards. All these planks a company must meet, in order to deliver the new image to buyers. (Kotler & Armstrong 2006b.)

### 3.4. Building an image

According to Kotler and Armstrong (2006b: 319), in *Principles of Marketing*, when competing products or services are similar, customers may perceive a difference based on company or brand image. And this often applies to high competitive markets where the sources of differentiation are very rare. Therefore companies should work hard to get creative to establish images that differentiate them from competitors. Building a CR image is one way to differentiate. However, this requires that it is not already used in the specific industry. By empirical studies, support of CR creates a reputation that a firm is reliable and honest (McWilliams 2001), and should have therefore positive impacts on corporate reputation.

A favourable corporate image takes a remarkable amount of time to build. Thus it can be said that gaining competitive advantage with image differentiation is a long-term strategy and instant benefits or competitive edge will not be observable. This creates a problem with the measurement and evaluation of the increased competitive edge. However, the building of corporate image is vital and automatic for today's firms. The socially responsible actions a firm makes to enhance their corporate image are very vulnerable in sense of sustainability. Unfortunately, only one negative event or neglect of something such as can kill the image practically overnight. Here with, a firm must support their image by being extra careful. Everything that happens in the value chain: manufacturing, advertisements, distribution, production, sales floor presentation, and customer service need to be in line with the intended image. (Kotler & Armstrong 2006b.)

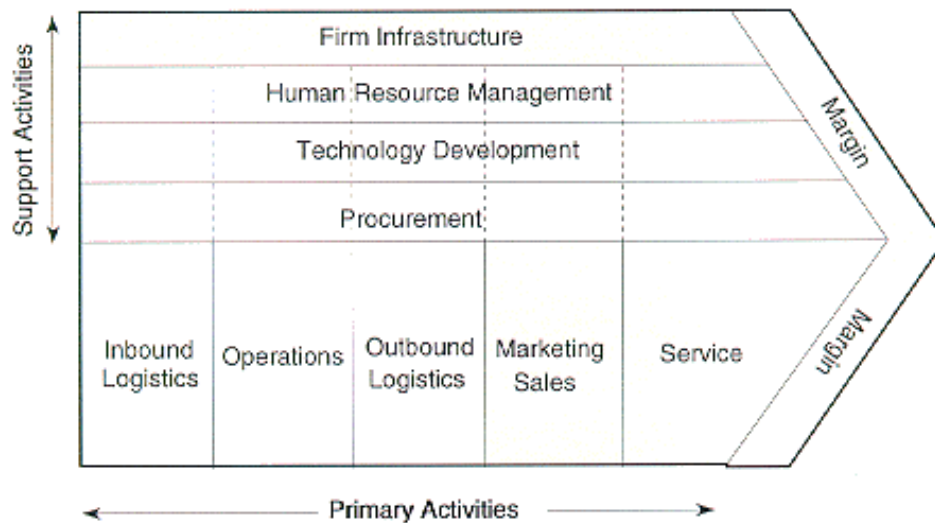
### 3.5. Reconfiguring the value chain

The importance of the value chain analysis is that it provides a framework for identifying and developing a distinctive competitive advantage. A basic tool for diagnosing and enhancing competitive advantage is the value chain (Figure 9). The value chain can serve as a useful framework for understanding the big picture, fundamentals and source of corporate image.

As the source of reconfiguration, the change must come from inside out, rather than only reacting on CR impulses from outside, "the organization can set an affirmative CR agenda that produces maximum social benefits as well as gains for the business" (Porter 2006: 5).

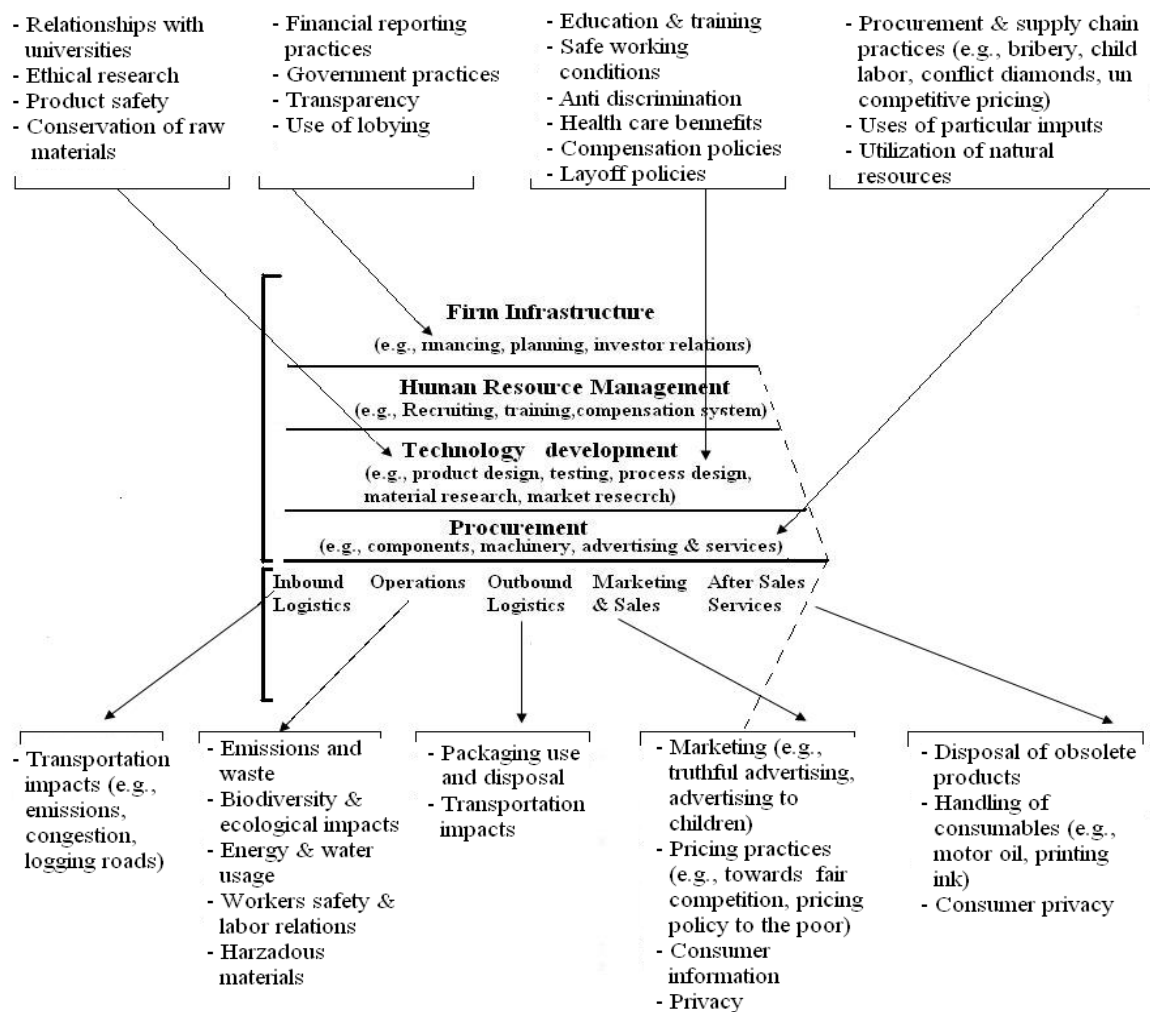
The reconstruction of the value chain, by creating a new value chain with environmentalism, for example, can unlock possibilities for differentiation (Porter 1985: 158). Adapting the green mindset and actions within the whole value chain is more likely to create sustained competitive edge than only in the marketing department. Also the ethical aspect of untruthful marketing can be questioned. A full dedication in the whole value chain also decreases the possibility for unwanted flaws, which can take down the whole image overnight. Porter and Kramer point out in HBR article, *The Link Between Competitive Advantage And Corporate Social Responsibility*, that companies cannot operate with every aspect of CR (i.e. all responsible actions that exist)

because of financial reason. They are ought to choose one or a few CR initiatives that will have the greatest shared value (i.e. benefitting both society and firm) – and apply this/these CR initiatives throughout the value chain. In this thesis, the environmental area is the one selected and will be emphasized throughout a firm's value chain.



**Figure 9.** Value chain (Porter 1985: 122).

In the primary activities - logistics, operations, marketing and sales, and after-sales services - the environmental image plays a great role. To mention few examples how this greener image shall be applied in all parts of value chain are through emission, packaging and disposal in logistics; waste and energy in operations; truthful and effective marketing communication; and both disposal and handling of consumables in after-sales services. The supportive activities as well are under the contract of reconfiguring the value chain. Firm infrastructure, human resource management, technology development, and procurement must also support the image. There are multiple ways in the value chain how to make a commitment to the new green corporate image, from inside to outside the firm. In the next figure, the "inside-out" view of the value chain is illustrated.



**Figure 10.** The “inside-out” view of the value chain (Porter 2006).

### 3.6. Conclusion

Corporate reputation is an intangible way to differentiate services and products from competitors. The reputation is built upon ethics and morality; history; efficiency; the product; public *image*; and human resource management (Siltaoja 2006b). Therefore, a favorable image is one of the factors that create a favorable *reputation* over time. However, a creation of an outer image alone, may not lead to desired results (Pruzan 2001). In order to have an improved and more inclusive description of the organization and its performance, the new image should rather be a reflection of an internal *identity* (Pruzan 2001).

The value theory connects reputation and CR (Siltaoja 2006b). Since the reputation is a very context related issue (Siltaoja 2006a) the firm must be sure

that the new image corresponds and is parallel with the *buyer's values* and needs. A well created positive image strengthens firms' competitive position (Marconi 1997). Also McWilliams (2001) has found positive impacts of CR on the corporate reputation, and a lack of CR effectively ruining a corporate image.

The image is not changed or created with only marketing actions. The whole *value chain* is to be under reconfiguration and the change must come from inside the company. A full dedication in the whole value chain also decreases the possibility for unwanted errors. Companies shall focus on CR issues with the greatest shared value, which to apply in the value chain, for example environmentalism. The intensity of actions should be more on the primary activities and less on the supportive activities of the value chain. (Porter 2006.)

This chapter identified some of the important concepts that connect competitive advantage (CA) to corporate responsibility (CR), especially concepts that relate to image and differentiation. These were image, reputation, identity, buyer values, and value chain. '

## 4. CORPORATE RESPONSIBILITY

This chapter aspires to explain in more detail: what is corporate responsibility (CR)? The complicated terminology will be cleared, as well as the elements and ideologies of CR. In addition this chapter discusses its linkage with corporate strategy. The purpose is to identify more concepts that connect competitive advantage (CA) to CR and also factors that explain their presumed causal linkages.

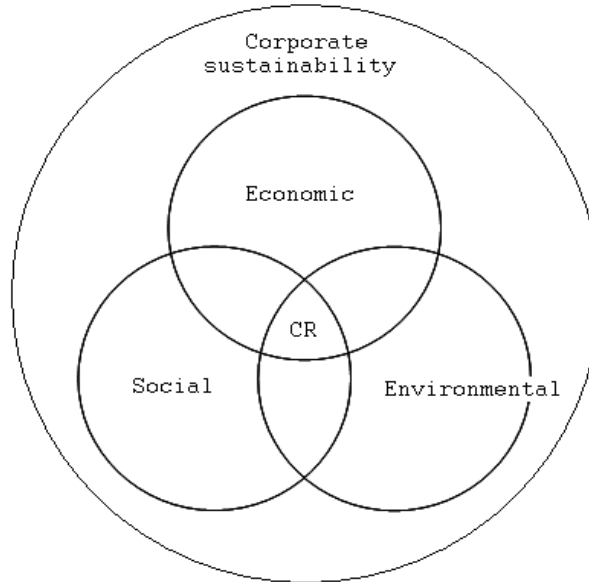
### 4.1. Mapping the terminology

More than before, firms are now expected to account explicitly for all aspects of their performance, i.e. not just their financial results, but also their social and ecological performance (Cramer 2005). The debate around this very subject has as many names as a well-loved child. It is called corporate responsibility, corporate social responsibility, CSR, corporate citizenship, corporate citizen, sustainable development, sustainable growth, sustainable business, corporate sustainability, sustainable entrepreneurship, triple bottom line, corporate ethics, or business ethics... In the literature all these definitions and even more can be found, even though some of them are synonyms or fall under the same umbrella.

The CR is variously known as a synonym for corporate social responsibility (CSR), good corporate citizenship or corporate sustainability. It seems that especially Anglo-Americans prefer the term CSR. More or less, everybody is talking about the same phenomenon.

Van Marrewijk (2003) offers a logical and simple, yet a holistic definition map for all the above. Therefore this thesis also applies the following definition for corporate responsibility. In his article *Concepts and Definitions of CSR and Corporate Sustainability* (2003) he suggests that corporate responsibility (CR) consists of three elements: corporate economic responsibility; corporate social responsibility (CSR); and corporate environmental responsibility. And, corporate responsibility (CR) is part of the larger entity, corporate sustainability (CS). Ketola (2007) emphasizes that corporate responsibility *cannot* and does *not*

equal to sustainability, because responsibility is relative and sustainability is absolute, meaning that firms are either sustainable or unsustainable.



**Figure 11.** General definition of CR and CS (van Marrewijk 2003).

The Confederation of Finnish Industries (2006) published a booklet entitled *Corporate Responsibility: Practices in Finnish companies*. They define corporate responsibility as "active responsibility, which stems from the company's values, objectives and activities and which takes into account the expectations of the main stakeholders" (EK 2006). They also share the opinion that CR is built upon economic, environmental and social principles. And the objective of CR is to realize sustainable development within companies in a voluntary way (EK 2006). However, increasingly the public opinion refers to that CR is becoming a mandatory-voluntary task on the industry level to retain corporate image and to eliminate the possibility for any loss in competitive position. Either way, the environment will benefit.

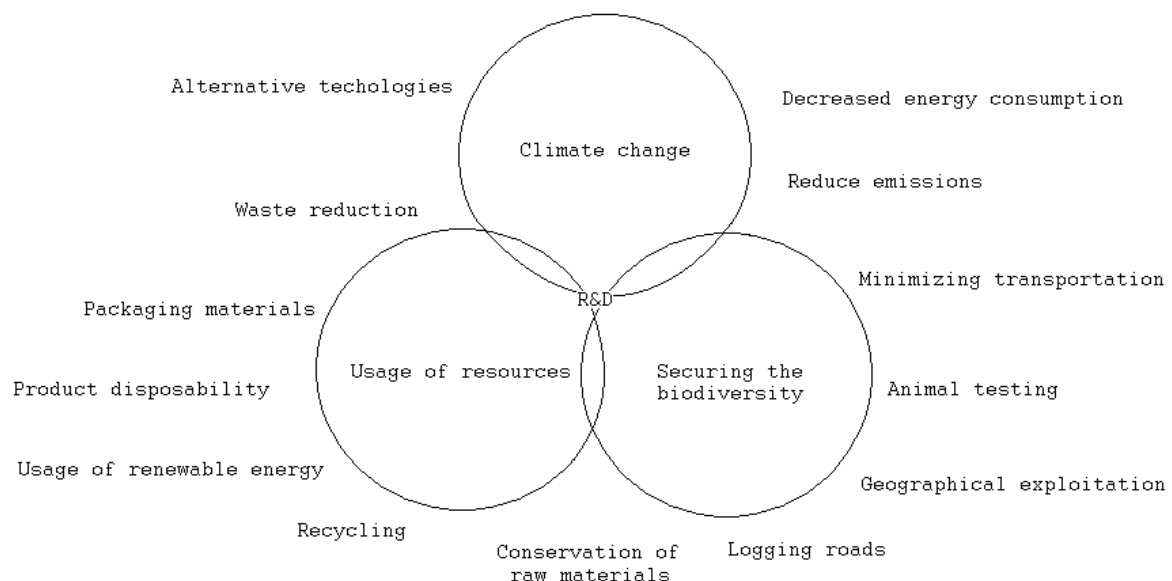
#### 4.2. Elements of responsibility

*Economic* responsibility is related to corporate transparency, which is traditionally covered in annual reports (Lotila 2004). The economic



responsibility's fundamentals for CR are in profitability, competitive advantage, and effectiveness. A firm is to assure their economical success and perform in a way shareholders expected. Hence the firm has a hand in the generation of welfare in a society by creating economical prerequisites for social responsibility. Without effective, profitable, and competitive entrepreneurship and business activity the well-being and welfare of a society is impossible to create or ensure. (Lotila 2004; Ketola 2005; EK 2008.)

*Environmental* issues and causes can be considered to have global effects. The responsibilities under the category of 'environmental' concerns simply nature. The securing of the diversity of nature, effective and economical usage of natural resources, and prevention of any further climate change - are all parts of the definition of corporate environmental responsibility. Under these three components thousands of ways to respect and protect the nature can be found. In the figure below are examples for practical actions and performance. As shown, the boundaries between each component are wavering and all three are connected in a way to make them difficult to separate. In the middle of the graph is placed the research and development (R&D) as the most significant single factor that has a vast effect on all three elements. The R&D work done to find alternative ways to operate has been, and will be in the key role when discussing about environmental actions.



**Figure 12.** The components of environment responsibility.

*Social* The third element or principle is the most humane. By social responsibility is meant: open and explicit actions and communication; taking care of human resources; looking after the consumer and consumer policies; ensuring product safety; cooperation with immediate surroundings and suburbs; good business manners and trustworthy networking; and supporting the public utilities (EK 2006.) An essential addition to the concept is cultural responsibility (Ketola 2005). In the recent CR literature, the social element is often referred as socio-cultural responsibility (Ketola 2008). The socio-cultural concept covers the human rights a bit more widely. For example, it includes the responsibility to maintain the cultural diversity, such as ethnics and languages (Ketola 2008).

#### 4.3. Underlying ideologies

Behind corporate responsibility, three main ideologies can be detected. *The first* and probably the most common one (Ketola 2005: 19) is the shareholder or owner focused ideology, i.e. the classical model (Sillanpää 1990). This model concentrates purely on adding value to their shareholder, almost at any expense.

*The second model* is the stakeholder focused ideology, or commonly known as the neo-classical ideology (Sillanpää 1990). The stakeholder model, in which all the stakeholders are taken into concern, is becoming more and more popular (Ketola 2005: 19). In neo-classical economics, the perception is that corporate responsibility entails a zero-sum trade-off with corporate economic interests (Burke & Logsdon 1996). However, this kind of mathematical approach might fail to describe and predict the real economy.

*The third ideology* is recognized as the sustainable development model. A firm that has internalized this ideology is uncommon to be found (Ketola 2005: 20). The ideology does not see the profit as a main objective; instead it aims to increase well-being in the whole society and on the earth. (Takala 2000; DesJardin 1998.)

However, as simple as sustainable development model sounds, it is still considered to be a naive approach to corporate responsibility. Today's egoistic

world and its business-life have not even reached the stakeholder ideology, and the rather slow step-by-step procedure seems to be the only realistic possibility. Meanwhile, and thus, this study focuses on the stakeholder ideology.

#### 4.4. Varieties of corporate responsibility

The way of practicing corporate social responsibility is distinguished in four categories on the grounds of each one's characteristics. This definition takes into concern two dimensions to clarify the varieties of CR - the firm and society dimension. The firm dimension measures the amount of raise in profits and the society dimension describes the amount of gained benefits for the object of CR.

**Table 6.** Varieties of corporate responsibilities (modified from The Economist 2005).

	<b>Raises welfare +</b>	<b>Reduces welfare -</b>
<b>Raises profits +</b>	Strategic CR ++	Poisonous CR - +
<b>Reduces profits -</b>	Ethical CR - +	Wasted CR - -

The form of ethical way can also be called as borrowed virtue. It is beneficial for the society but reduces the profits of a firm. Practical examples of this could be pure charity, corporate philanthropy, and donations for the public good.

The wasted CR is simply incurring only costs on every area a firm is practicing CR, and the desired benefits are often only cosmetic. It does not increase the social welfare either and might even become pricey for the society. An example of this could be unsuccessful recycling of some goods. A lack of knowledge or information is usually a cause in wasted CR.

The poisonous or pernicious CR practices are about raising profits for the firm but not affecting increasingly on the social welfare. In this case firms justify their own actions with a statement of that even when a firm profits, it automatically raises the social welfare. Luckily, the media daily prints arguments to overrule this false claim.

In the strategic CR the puzzle pieces fall in place. Corporate responsibility becomes strategic when it yields substantial business-related benefits to the firm, in particular by supporting core business activities and thus contributing to the firm's effectiveness in accomplishing its mission (Burke & Logsdon 1996). This is the area of felicitous and good management. The strategic CR actions are the ones that raise the interests in both of the dimensions - creating a fertile win-win situation. Many firms however, live in an illusion that their CR performance is under this category, even though theirs' is not. The ultimate measure of strategic advantage from CR activities is the value they create for the firm (Burke & Logsdon 1996). Strategic CR is the key to practicing CR, profitably and competitive edge in mind. In more detail, the strategic approach to CR is presented in chapter 6.1.3.

#### 4.5. Learning corporate responsibility

Ketola (2006a) uses a metaphor of psychopaths in the cases of irresponsible companies. "Many large companies seem to fulfil the psychiatric criteria for psychopaths in their corporate responsibility practices" (Ketola 2006a: 98). In her article, she lays claims for companies to take responsibility over their actions.

"Ideal responsibility integrates the economic, social and ecological responsibilities of a company so that economic goals do not take priority over social and ecological goals" (Ketola 2006a: 106). This means that companies will not do business at the expense of the wellbeing of humans and nature. "This kind of a company needs to establish its mission and business strategies on truly ethical values" (ibid).

Continuing with the allegories, the adaptation of the *CR state of mind* refers, in this thesis, to a temporary psychological state in cognitive process. The adaptation of this CR state of mind in an organization has consequences. Change is often considered as a strain for organizations. It certainly has impacts on the corporate culture, which requires the development of new shared values, as well as strategic embedding within the organization of the three pillars: people, planet and profit (Cramer 2005). This is not an easy case. The assimilation of new knowledge and the renewal of the organization are

indicatives of organizational learning (Cramer 2005). In a case where a corporate psychopath adopts a CR state of mind, changes are radical. These most likely involve a major change in a strategic direction, which is called double-loop learning (Argyris & Schön 1996). A less change is needed when a firm has already some experience of corporate responsibility. Thus the internalizing of corporate responsibility becomes easier and leads to the adaptation of the CR state of mind with less changes in the culture.

The learning process that is required for the adaptation of CR state of mind is not simply an internal process (Cramer 2005). In addition it involves interaction with external stakeholders (Polonsky & Ottman 1998). Cramer (2005) found that the need to intensify communication with stakeholders is particularly expressed by those that feel the external pressure to do so. But more the CR is an integral part of the culture easier it is to communicate the norms and values underlying the concept (Cramer 2005).

#### 4.6. Conclusion

Corporate responsibility, which is a part of corporate sustainability entity, consists of social responsibility, economic responsibility, and environmental responsibility (van Marrewijk 2003). In addition CR is in this study considered as a voluntary task, meaning that companies do more than laws and regulations acquire.

Strategic CR is a way to execute corporate responsibility. The main idea of the strategic approach is a win-win situation, in which CR raises both profits and well-fare in the object of CR. Moreover, corporate responsibility becomes strategic when it yields substantial business-related benefits to the firm, in particular by supporting core business activities and thus contributing to the firm's effectiveness in accomplishing its mission (Burke & Logsdon 1996).

Transferring from irresponsibility to CR state of mind, in which companies behave responsively, is not an easy process and has consequences. It impacts the organizational culture, which requires the development of *new shared values*, as well as strategic embedding within organization of the three pillars: people, planet and profit (Cramer 2005). The internalizing of the CR state of mind is less

painful and requires less organizational learning in a case where an organization has some experience of responsible behavior. Furthermore, Cramer (2005) found that the need to intensify *communication* with *stakeholders* is particularly expressed by those that feel the external pressure to do so. But more the CR is an integral part of the culture easier it is to communicate the norms and values underlying the concept (Cramer 2005).

This chapter explained what is meant with CR in this study. There was also identified more concepts that connect competitive advantage (CA) to CR and explain some of the presumed causal linkages. These were shared values, communication, and stakeholders.

## 5. DRIVERS FOR ENVIRONMENTAL MARKETING

Environmental responsibility is the aspect of CR that has been discussed the most exceedingly in the media. This area, as well as other CR areas, is still rather unexploited in the means of firms' differentiation strategies. In this chapter the most important factors of the environmental marketing and managing it, are presented and analyzed. The purpose is to discover underlying drivers of CR and dissect the market forces.

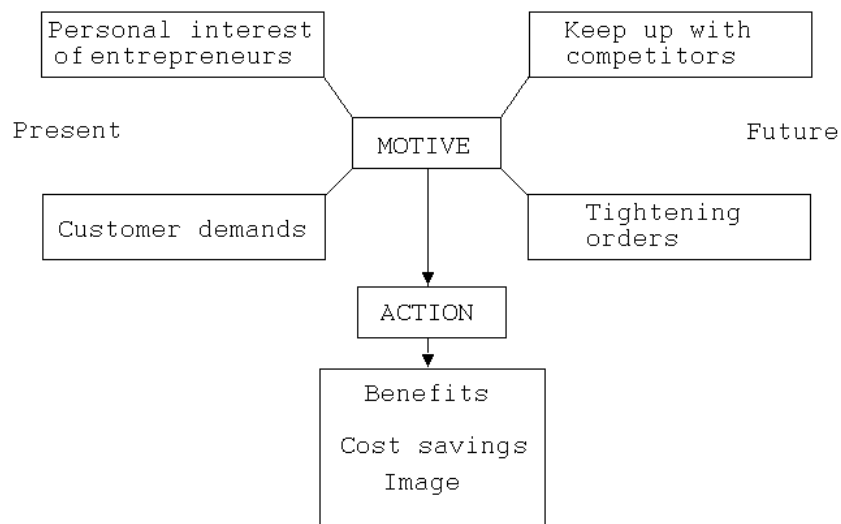
### 5.1. Compliance and strategic model

The compliance approach proposes that the firm will follow laws, restrictions, and regulations of a society, and meets this way the definition of CR. In this thesis, by CR is meant the unsolicited and additional actions a firm renders after the compliance model, called strategic model. This model of CR management suggests that firms attempt to maximize shareholder returns by utilizing a corporate responsibility strategy to create competitive advantage. (Miles & Govin 2003.) A few examples of firms, whom have realized that environmental expenditures could be invested in the creation of an environmentally based competitive advantage, are Body Shop and Ben & Jerry's (Kotler & Lee 2005). Characteristic for strategic model is also to position their CR actions, so that both the society and the firm find themselves in a win-win situation.

In other words, the thesis concentrates on the strategic model, in which corporate responsible actions are seen as voluntary by the firms, instead of seeing CR as the compliance model does.

*The motives* for the strategic model of environmentalism vary depending on the companies. A qualitative research, carried out in 17 Finnish SMEs, found that the main motive for environmental consideration was the personal interest of entrepreneurs and owners (Mäntylä, Syrjä, Vainio, Vehkala & Wuori 2001: 33-36). A less than a half mentions motives in line with the compliance model, when in the previous study by Laurila & Sironen (1997) found that as a main motive for environmental consideration. According to Mäntylä et al. (2001: 35) other motives were: requirements of their stakeholders (customers mostly),

intentions to keep up with their competitors, and preparing for the tightening orders of the authorities. In the long run, the dissected SMEs believed in cost savings and image benefits (Mäntylä et al. 2001: 35). In the figure below, the motives of SMEs for environmental actions are demonstrated.



**Figure 13.** Motives of SMEs for environmental actions (Mäntylä et al. 2001: 35).

## 5.2. Environmental marketing model

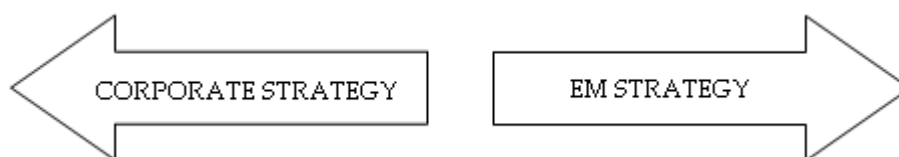
The environmental marketing (EM) tends to develop a differentiated-based competitive advantage and is an addition to traditional marketing. Environmental marketing, EM, includes environmental issues in the whole value chain: development of the product, corporate and product promotion, distribution system, and pricing strategy (Miles 2003). EM is a strategic perspective that concentrates on the environment and sees it as a possibility to create competitive advantage and position the firm for enhanced business performance. On the table below, the orientation, sources, and forms of competitive advantage are shown to clear the strategic management model and EM. As well as in every marketing strategy the segments and clientele are the be-all and end-all. The marketed values must meet with the values of the target group to success. Another fact that points about from the table is that the corporate image enhancement may be a benefit of this positional advantage (Miles et. al 2003).



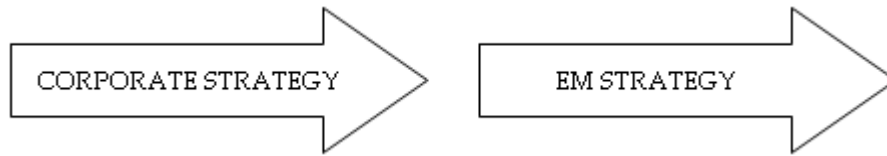
**Table 7.** EM orientation, sources, and forms of CA (modified Miles et al. 2003).

Environmental management system	Source of competitive advantage	Form of advantage
COMPLIANCE MODEL	Environmental expenditures viewed as only cost and not as an investment in competitive advantage.	Potentially a cost-based advantage, but typically not sustainable since this model suggests meeting only the minimum environmental standards as determined by law.
STRATEGIC MODEL	Environmental expenditures viewed as investments in the firm's ability to create value for its owners, customers, and other stakeholders by developing superior skills or adding to the firm's resource base, hence building core competency-based strategy.	A focus/differentiated position that targets either environmentally sensitive consumers or discovers/creates markets performance is a mobility carrier. Corporate image enhancement may be a benefit of this positional advantage

The form of advantage, whether it is cost, differentiation, or focus based, is not receivable if the corporate strategies are not in line with the environmental strategies. "Numerous incidents exhibiting corporate irresponsible behaviour in different parts of the world show how corporate responsibility strategies are useless if corporate business strategies deviate from them" (Ketola 2007). In the process of turning responsible strategies into business strategies, Ketola (2007) distinguishes four stages. At the *first stage*, environmental strategy contradicts to corporate strategy.

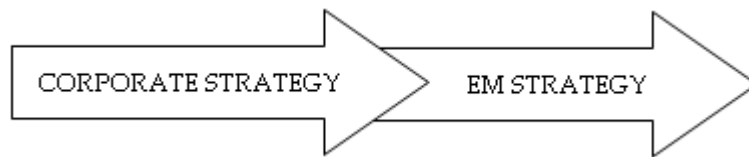
**Figure 14.** Contradictory strategies (modified from Ketola 2007).

At the *second stage*, (Figure 15) these two strategies are aiming at the same direction, but they are still separate strategies, as well as they are at the first stage.



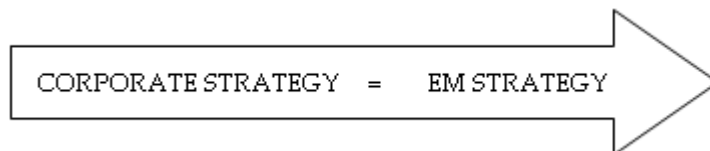
**Figure 15.** Parallel strategies (modified from Ketola 2007).

In the *third stage*, these two strategies united (Figure 16). This stage explains how the environmental strategy is integrated into the corporate strategy. The ideology is that the EM strategy supports the corporate strategy. However, some companies face problems when they are trying to integrate green values and words in their corporate strategies but cannot act in a matching way. The failure to match environmental values, words and actions, is more likely to result in a failed strategy. (Ketola 2007; 2006b.)



**Figure 16.** Integrated strategies (modified from Ketola 2007).

At the final *stage four*, the environmental strategy *is* the corporate strategy (Ketola 2007), including business strategies, functional strategies and operational strategies. In this environmental strategy, the values words and action match.



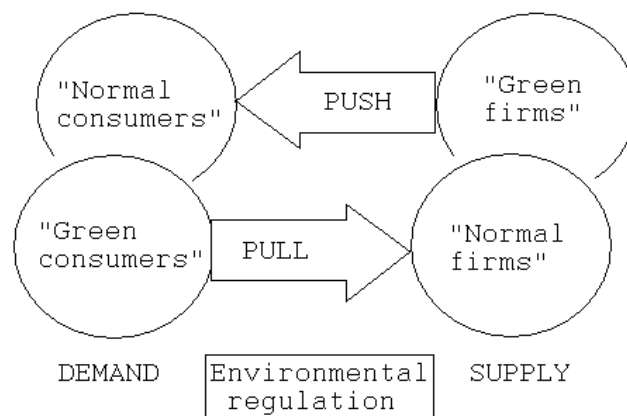
**Figure 17.** Corporate strategy is EM strategy (modified from Ketola 2007).

### 5.3. Markets for environmental image

In the more developed countries, such as the OECD countries, the market responds and requests differ from the developing countries. Therefore it seems

rather natural to consider the conditions of the markets for CR attributes. This chapter will introduce the demand and supply of environmental responsibility. Without a demand for environmental activities, a firm should not bother to concentrate on these issues in a strategic matter - unless the demand can be created.

Dobers & Wolff (2000) claim that the important elements in the attempts to achieve sustainability have been: regulation; consumer awareness; companies' solutions of end-of-pipe problems; and companies' green product development. They illustrate the interplay of these elements in the figure as follows.



**Figure 18.** Markets and institutions (Dobers & Wolff 2000).

The presented figure explains the mechanism of the markets and institutions well, especially how the amount of environmental awareness increases. However, the figure is missing the option where "green firms" offer their goods to "green customers". That would be a sure win-win situation and static for some time. On the other hand, the amount of greenness changes constantly, and creates either pull or push of greenness. In any case the situation where firms' greenness matches consumers' greenness (demand meets supply) is ideal for each party.

### 5.3.1. Demand for responsibility

There is a clear evidence that many, although certainly not all, stakeholders *value* environmental responsibility and other socially responsible attributes. An increasing number of companies have attached environmental responsibility into their competitive strategies (McWilliams 2001). These firms desire to exploit the appeal of environmentalism and target the marketing to segments with a demand of environmental image.

The stakeholders of a company can place demands on the company, but nonetheless, the company can also demand environmentally responsible behaviour from its stakeholders (Kovács 2006). A way to increase demand is to create or awake it, in possible new stakeholders, such as in consumers. For environmental image differentiation to be successful, stakeholders and potential buyers must be fully aware of environmental characteristics, otherwise they might as well do business with a firm without such attributes. The need for stakeholder communication increases as the firm becomes more active in responsibility. At first, especially with a new stakeholder, these attributes may not even be visible at first glance. Therefore, advertising and other marketing communication is an intrinsic part in raising the awareness of those stakeholders who are interested in companies with environmental attributes and responsibility. McWilliams (2001) found that because consumers must be made aware of the existence of CR attributes, there will be a positive correlation between the intensity of advertising in an industry (a proxy for which is the ratio of advertising to sales) and the provision of CR.

An increase in income has also an effect on the demand of CR, according to McWilliams (2001). He has found positive correlation between income increase and demand on CR, which is rational. In high-developed countries there has been a radical rise in GDP and incomes within last 10-15 years - thus it could be assumed that also demand for environmental responsibility has risen. An engrossing idea can be assumed, that the demand increases also in future, as well as the economical wealth proliferates.

As mentioned before, not all stakeholders value CR performance higher than non-CR. Because of this, the price of competing goods will have an effect on the demand of the firms providing CR attributes. If the price is equal, between an

environmental and non-environmental good, most likely the consumers select the CR embracing provider, an environmentally responsible firm. Even though the price is a little higher of the environmental product, some consumers most definitely choose a good with CSR attributes. The limit or the tipping point is momentous. When the difference in price becomes enough substantial, the buyer will switch away. There exists a positive correlation between the price of substitute goods and the demand for goods with CR attributes (McWilliams 2001).

All over the world, the legislation against environmental exploitation has tightened in recent years. Worldwide treaties such as the Kyoto Protocol are signed by an increasing number of counties. The objective is to reduce greenhouse gases in an effort to prevent anthropogenic climate change. On the domestic level institutions are advocating pro environment. Recently (September 15th 2008) in Finland, a new decree of Council of State (591/2008) came into operation. The decree set up a consultative committee for corporate responsibilities. The purpose of the committee is to strengthen domestic and international CR politics, and promote CR behaviour in the business life (Momentti 2008: 7). All of this kind of awakening sets the scene for increase in CR demand. But even though companies with a Finnish background may seem more responsible than some other international conglomerates, Finland still follows the Swedish companies far behind (Ketola 2005). Contrary to Sweden, Finnish firms have avoided huge scandals - and on the other hand - Finnish firms have not realized the relationship between responsibility and profit (Haltsonen 2004).

### 5.3.2. Supply for responsibility

Being environmentally and thus also socially responsible is not free of charge. In order to create or correspond to the demand a firm must use its resources, called here 'inputs'. McWilliams (2001) distinguishes inputs used in the provision of CR in capital; materials and services; and labour.

The capital inputs are the special equipment, machinery, and real estate devoted to CR. For example, pollution abatement to achieve an environmental standard beyond that required by law will require investments. However, the requirements today are most likely history in few years, in which case the firm

invested to higher standard might have a forerunner advantage to competitors. Materials and services might have a higher cost, when purchasing from suppliers who are socially also responsible. Input in a form of labour can mean higher wages and benefits, and additional workers to enhance social performance – a CR consult, as an example. (McWilliams 2001.)

#### 5.4. Conclusion

The environmental strategic model suggests that firms that attempt to maximize shareholder and stakeholder returns by utilizing a corporate environmental strategy can create competitive advantage. The motives for this strategic model of environmentalism are personal interests of owners; stakeholder demands; intentions to keep up with the competitors; and preparations for the tightening orders from the authorities. Mostly, the CR actions are done in a hope of image benefits and cost savings. (Mäntylä et al. 2001.)

The environmental marketing (EM) model tends to develop a differentiation-based competitive advantage, and pertaining to the whole value chain. EM sees the source of competitive advantage in environmental expenditures viewed as investments in the firm's ability to create values for its owners, buyers, and other stakeholders. Developing value that stakeholders appreciate to the corporate image would do this. The form of advantage this strategic model produces is a focus/differentiated based positioning, which targets environmentally sensitive buyers. Corporate image enhancement may be a result of this positional advantage. However, the form of advantage is not receivable if the corporate strategies are not in line with the environmental strategies. The best results are most likely available when the environmental strategy is the corporate strategy. (Miles 2003, Ketola 2007.)

Arguably, a demand for strategic CR and environmentalism must either exist or is to be created. Otherwise, there will be no financial gain for a firm. It is clear, that not all buyers value environmental actions as much. That is why focusing where the demand is, is important. The other way is to differentiate and thus create a demand in an industry. For 'environmental image differentiation' to be successful, stakeholders and potential buyers must be fully aware of

environmental characteristics, otherwise they might as well do business with a firm without such attributes. Therefore, advertising and other marketing communication is an intrinsic part in raising the awareness. The supply of environmental responsibility, so called inputs, is the resources used in CR actions to satisfy the demand. In an ideal situation the supply corresponds with the demand, and no resources are wasted.

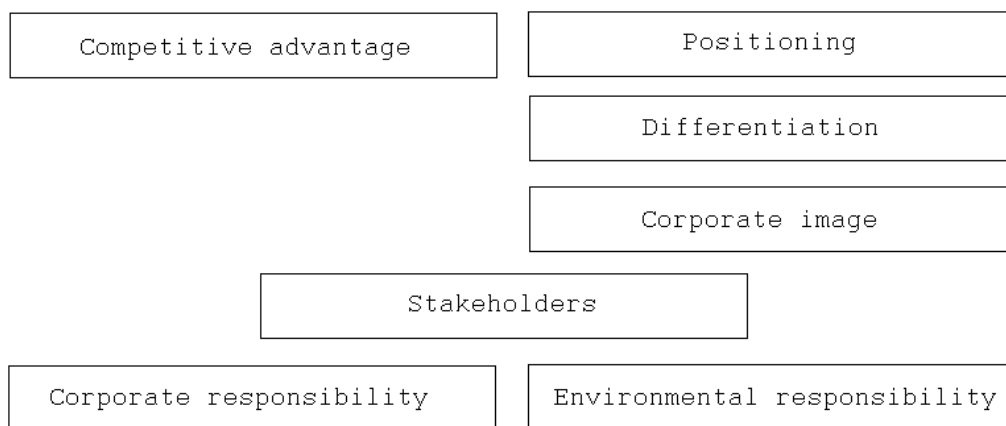
This chapter dissected different strategic approaches to environmental responsibility and suggested a strategic approach if financial gains are targeted. The most important factors of the environmental marketing were presented and analyzed. The drivers for CR were found and the market forces, supply and demand, were also dissected.

## 6. HYPOTHETICAL MODEL

The previous five chapters identified the concepts that connect competitive advantage and corporate responsibility and dissected the causal linkages. In this chapter the theoretical framework is combined together by presenting the concepts and their presumed linkages. The purpose is to combine the information together and accordingly build a hypothetical model that concludes all the previous chapters. In addition, this chapter aims to develop and postulate working proposition that can be used to guide the empirical part of the study.

### 6.1. Connecting positioning and corporate responsibility

The first (sub) research question (Q1), *what are the concepts that connect competitive advantage (CA) to corporate responsibility (CR)*, is presented in the theoretical part of the work, starting from the strategic positioning and competitive advantage in the chapter two. The third chapter presented differentiation more deeply and the corporate image. Corporate environmental responsibility and stakeholders were discussed in chapters four and five. These are the concepts that connect competitive advantage to corporate responsibility (the blocks represent the concepts in Figure 17). In the next paragraphs, *the presumed causal links between the concepts that connect competitive advantage (CA) to corporate responsibility (CR)* are explained (Q2).



**Figure 19.** The concepts that connect CA to CR.



*Link between CA and image differentiation* The position school of thought with Porter's competitive strategy focuses mainly on the industry level analysis and formulation of competitive strategy. This suits especially stable and slower changing environment, and might be a little clumsy in some dynamic fields of business.

The sources of differentiation and competitive advantage are often seen too narrow. The creation of an environmentally responsible image is an intangible way to differentiate and can be used to position a company in an industry. Because of the increased costs of building a CR image, cost efficiency as a generic strategy is dismissed.

In energy- and materials-intensive industries CR considerations have been more important, because of their direct impact and scale of effects, than in 'softer' industries. However, the CR pioneers in 'softer' industries such as cosmetics and food seem also to enjoy first-mover advantage by creating entry barriers to competition. These pioneer companies such as Ben & Jerry and Body Shop claim CR and environmental images as intrinsic parts of their competitive strategy and advantage.

Theoretically the linkage between competitive advantage and image differentiation exists. Like any form of differentiation, also corporate image and reputation can position a company and gain competitive advantage.

*Link between image differentiation and CR* When a company becomes interested in creating competitive advantage with CR or more specifically with environmental actions, it has to reconfigure its whole value chain. The marketing department itself cannot create a CR image, not sustainable at least. The reconfigured value chain activities and the created image must meet with the values of the stakeholders and concern issues that they experience as value-adding behaviour. A greater the amount of perceived value is from the actual value, a higher possibility is to enjoy an enhanced image.

Not all stakeholders value CR as much as others. Therefore, the adjustment of the scale of CR is important. Focusing on the type of stakeholders who appreciate CR high and are willing to pay the increased costs of a CR image, is more likely to result in enhanced performance in an industry.

If we think the CR investments from a philosophical standpoint, we are able to find following. The French philosopher Blaise Pascal defined a decision theory to believe in God, Pascal's Wager. The Wager posits that it is a better "bet" to believe that God exists than not to believe, because the expected value of believing is always greater than the expected value of not believing. If the word God is replaced with an argument: *CR actions have a positive effect on corporate image*, we can use Pascal's Wager theory to understand the link between CR and image differentiation. It can be a better bet to believe and invest in CR than to neglect it, because the neglect towards CR concerns can only be harmful. And the proactive role might have beneficial effects on the corporate image. The following figure demonstrates all the possible options of CR action to the corporate image.

**Table 8.** Effects of CR on image.

	Possible outcome and effect on corporate image			
CR actions		Beneficial	Neutral	Harmful
	Proactive	x	x	x
	Reactive	-	x	x
	Neglectful	-	-	x

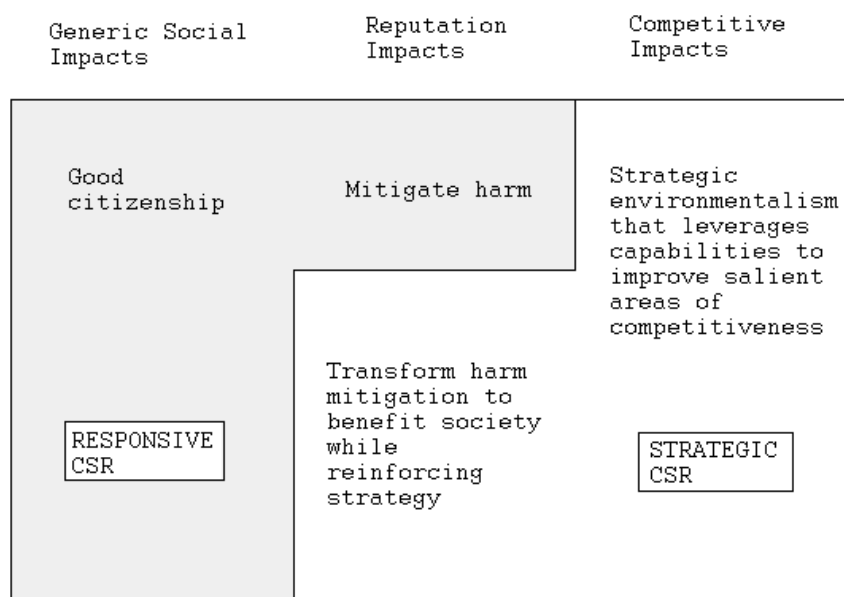
Theoretically speaking, *if* CR is most likely to create positive effects on corporate image, and this corporate image can be used as a way to differentiate, *then* CR can be used as a competitive strategy to achieve a competitive position in an industry.

To conclude, the CR actions are a source of image differentiation. This thesis does not speak out for, whether it is beneficial financially or not. Examples of both successful and unsuccessful attempts exist. The link from CR to enhanced corporate image is yet possible and most likely to occur among specific segments or niches with proactive actions. In addition, neglecting the CR can only have harmful effects on image.

*Link between CR and CA* In order to gain competitive advantage with CR, the actions must benefit both the society and the company. This approach is called

the strategic CR, and it is the only form that might have competitive impacts in an industry. Strategic CR moves from beyond good corporate citizenship and mitigating harmful impacts on image, to start being proactive with few issues that the key stakeholders value high. The positive impacts on image reinforce the competitive strategy, while the strategic environmentalism leverages capabilities to improve areas of competition by focus-differentiation. (Porter 2006.) The table below is to demonstrate the previous.

**Table 9.** Strategic approach to CR (modified from Porter 2006).

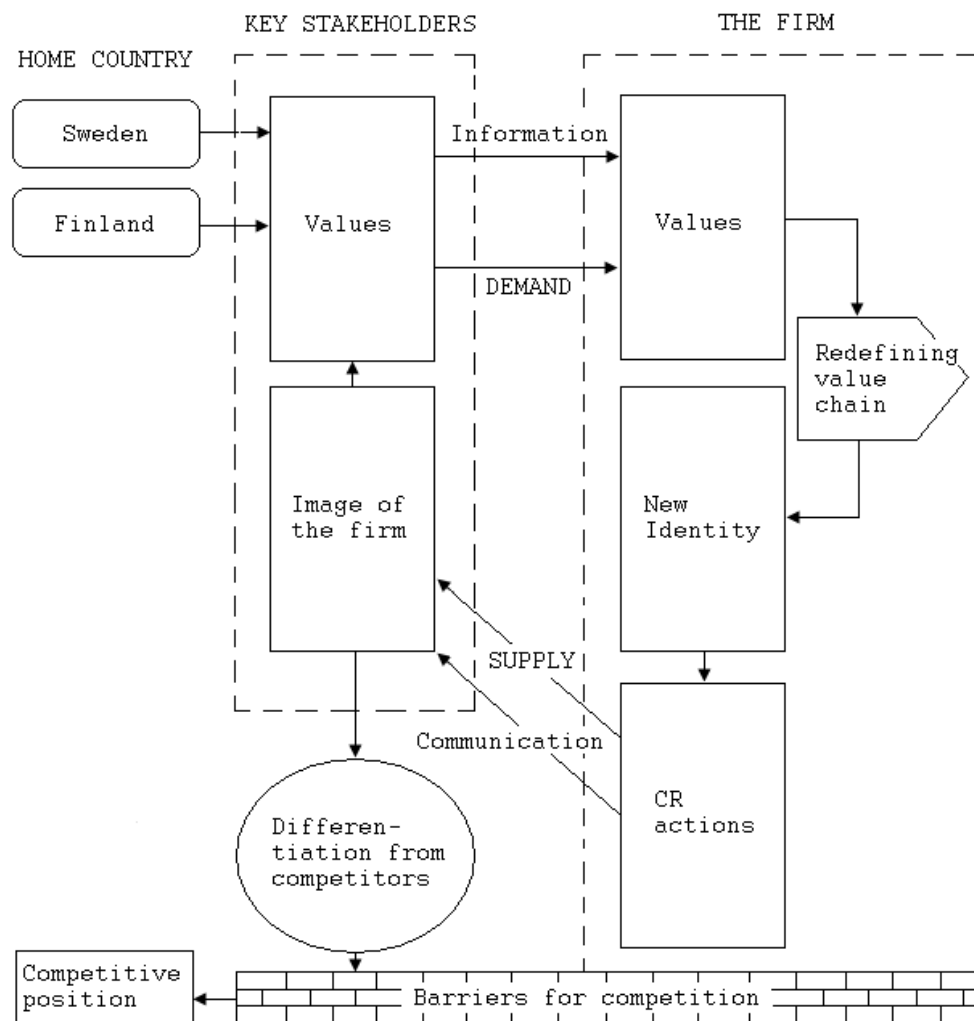


This thesis does have an answer to the question, whether strategic CR or environmental actions can, or cannot create competitive advantage. This kind of problem would require a very wide quantitative and empirical study or a meta-analysis on the subject. Even still, the study would face troubles concerning the immeasurable nature of the benefits of CR. However, if a company disposes unresponsively to environmental issues or lacks in responsive CR it will undoubtedly have negative effects in business in the long run (Crane & Matten 2004). This has been seen also in the media, Shell incident as an example. Even if the linkage cannot be fully proved, the path from environmental CR to increase in CA is viable and CR can be used a strategic tool to find a competitive position in an industry. A lot depends on the way the differentiation will be executed within the competitive strategy.

## 6.2. Development of working propositions

*The hypothetical model* will work as a summary and as a conclusion of the theoretical part by illustrating what are the concepts that connect competitive advantage to corporate responsibility; by explaining the presumed causal links between these concepts; and by describing how corporate responsibility could relate differently to corporate strategy between Swedish and Finnish stakeholders.

It seems, that corporate responsibility, and especially corporate environmental responsibility, has potential to be used in a firm's competitive strategy. The enhancement of a competitive position is possible with image differentiation, by distinguishing the reputation from competitors. The figure 18 explains this.



**Figure 20.** The hypothetical model.

There are two pertinent parties in the figure above: the key stakeholders and the firm. The model appears to concentrate on the role of the stakeholders, which reflects the neoclassical ideology behind CR. However, there are also signs of sustainable development model, since the firm proactively pursues to develop its own responsibility.

To continue to unravel the model, this strategic CR requires either a pull or push for environmental responsibility. These two factors are presented in the figure as demand and supply. If demand for CR does not exist, it must be created. This leads to the first working proposition:

*P1. If a demand for corporate responsibility does not exist, firms can create it by supplying corporate responsibility.*

In the first scenario, demand for environmental responsibility exists. This means that the key stakeholders have an interest towards responsible products and services. Not all stakeholders value same issues, therefore the focus is on the most important stakeholders, financial wise. The mission of the firm here is to receive information about their key stakeholders' values and to match their own values with them.

The second working proposition is that:

*P2. A key stakeholder oriented firm forms and re-forms its values according to its key stakeholders' values.*

After the firm is informed with what their key stakeholders desire, the redefining of the value chain takes place. The internalization of the new set of values must happen in the whole value chain, not only in the marketing department. Otherwise, an adaptation of a new corporate identity will not occur. Therefore it can be proposed that:

*P3. A responsible identity is built upon the whole value chain of the firm.*

However, a firm cannot render all the environmental functions in the world - instead, it shall stress the CR issues that the key stakeholders value the most. If the new values are integrated successfully into the organizational culture, a

new identity emerges. With this new identity, a company will not have to worry about matching values, words, and actions since they come naturally (reflected image). In contrast, focusing only on the pragmatic image building may not lead to the desired results - therefore, it is vital that the internal, identity, perspective is behind the image building (Pruzan 2001).

The next working proposition is as follows.

*P4. A reflected image is more likely to lead to desired results than a merely pragmatic image.*

This is more likely to result in improved and more inclusive description of the organization and its performance, which will be necessary for organizations viability and success. (Pruzan 2001.) In addition, more the CR is an integral part of the culture, easier it is to communicate the norms and values underlying the concept (Cramer 2005).

Now after the internal changes have taken place in the firm, it is time to communicate this new identity to the stakeholders in a form of CR supply. The perception of the firm changes in the mind of the key stakeholder towards an environmentally responsible image, and the supply meets the demand. But in order to enjoy the benefits of an enhanced image, the stakeholders must be fully aware of CR actions of a firm, otherwise they might as well do business with a firm without such attributes.

Thereafter, the new image of the firm differentiates the company from its competitors. The prerequisite is that there is no other similar image in the industry. According to Porter's theory of competitive advantage (1980: 1985: 2006) the successful differentiation creates barriers for competition, and weakens the five forces in the industry. This leads to a competitive position.

In the second scenario demand does not exist. In other words, the key stakeholders are not keen in environmental responsibility. In this case, the firm creates a supply by being environmentally responsible and communicates this to the key stakeholders. This new image may have a positive effect on the values of the stakeholders, which then again, creates a demand for environmental responsibility.

The international aspect is added to this model in the form of the home country or the context of the key stakeholders. The amount of appreciation towards environmental responsibility depends greatly on the culture the key stakeholders identify with. Being so, the last working proposition is that:

*P5. A key stakeholder oriented firm adjusts the amount of its CR activities, according to the context of its key stakeholders at issue.*

Arguably, the difference in the home country values of the stakeholders affect the demand for corporate responsibility; the perception of a responsible image; and the communication between these two parties.

In the following chapters, the presented hypothetical model and working propositions will be tested with empirical data. The intension is to deepen the understanding of the phenomenon and its suitability in practice through an instrumental case study.

## 7. RESEARCH METHODOLOGY

In this chapter the research methodology and the characteristics of the qualitative study research method will be described in detail. In addition the data collection and analyzing methods are presented. The purpose of this chapter is to discover the most suitable tools for the unravelling of the main research problem: *how can a firm position itself with corporate responsibility (CR), and in particular with environmental responsibility?* This chapter also dissects the validity and reliability of the study.

### 7.1. The chosen method

The philosophical background of this thesis is in the Aristotelian tradition, which is more commonly known today as hermeneutics (Eskola & Suoranta 1998: 14). According to the Greek Aristotle (384-322 BC), sense perceptions or knowledge of essences, have a great role in scientific methodology (Niiniluoto 1980: 39-42). This makes the research process, more researcher-related and thus a more subjective entity.

*Qualitative approach* Since the research method and the research data are subordinates to the research problem (Uusitalo 1991: 50), the research problem and questions define the used method and data. In order to have an explicit answer to the research problem of this study, a qualitative method is obligated to use. By quantitative approach, the interpretation and understanding of the phenomena are not possible.

It is unnecessary to speak up for the qualitative research methods or their significance in the field of academic research, since the usefulness of the qualitative research methods have been finally noticed (again) throughout business sciences and economics (Koskinen, Alasuutari & Pelkonen 2005: 24, Yin 2003, Eskola & Suoranta 1998, Alasuutari 1994).

*Deductive reasoning* The deductive reasoning begins with the already existing theories and the process is guided by this theory which precedes it (Walliman 2005: 193). The following empirical part then dissects the produced hypothesis or themes (Uusitalo 1991: 36). In this study, the hypothetical model presented is



a speculative answer to the perceived problem, which will be tested and strengthened, or weakened, by an empirical experiment. As it typical for hermeneutical philosophy, the research will continue to the theoretical framework, forming a circular or a spiral process of research.

*Case study* A case study can be considered as an empirical study in which, a phenomenon is researched in its natural environment with a help of many different kinds of data (Yin 1989: 23). More and more case studies are recognized and used extensively in economics. Yin (2003: 1, 5) proposes that case studies are preferred when how or why questions are posed in, when the research does not require control over behavioural events, and when the study focuses on contemporary events.

**Table 10.** Relevant situations for case study strategies (modified from Yin 2003: 5).

Strategy	Form of research question	Requires control over behavioural events?	Focuses on contemporary events?
Case study	How, why?	No	Yes

The selection of case study method for this research would seem rational because the purpose of case studies are to *explain* the presumed causal links in real-life interventions that are too complex for other methods; *describe* an intervention and the real-life context in which it occurred; *illustrate* certain topics within an evaluation; and *explore* situations in which the intervention being valued has no clear set of outcomes (Yin 2003: 15).

In addition, Uusitalo (1991: 79) suggests that case studies are recommended especially in researching singular phenomena. The strategic implications of corporate responsibility in the Nordic hospitality industry can be considered as a singular phenomenon since it is able to be individualized.

To conclude, it can be said, that the method in question is chosen because of its ability to combine the theory and the methodology of this study in a way, no other method is capable of. In addition, the case study method allows the

researcher to cover contextual conditions (Yin 2003: 13), which are highly pertinent to the phenomena researched. Because of these reasons, case study is the chosen method.

## 7.2. Selection of the case

The selected case is Scandic, the Nordic region's leading hotel chain. There are three main reasons for this decision. Firstly and mainly, is the niche that exists in the field of research. Scandic operates in the hospitality industry, which has not been researched much, relating to CR issues. Secondly, Scandic was chosen because of their exemplary environmental agenda. Thus the company can be considered as a suitable case since CR activities are found in their business. Therefore, a single case study is suitable, even though it could be merrier with more. Unfortunately, the given resources to this study limit the amount of cases. On the other hand, an increase in the number of case companies would mean reduction in the depth of the analysis. Thirdly, the researcher's finds hospitality industry and the specific case interesting. A thorough presentation of the case can be found in chapter 8.

## 7.3. Procedure of the study

### 7.3.1. Data reduction

The term data reduction refers to selecting, focusing, simplifying, abstracting, and transforming the collected data, and it starts already before the collection of the data (Miles & Huberman 1984: 21-23). In this research, there are three main themes that determine the topics for the data collection. These themes are led from the hypothetical model (Figure 18) and therefore are in line with the working propositions that were developed from the model.

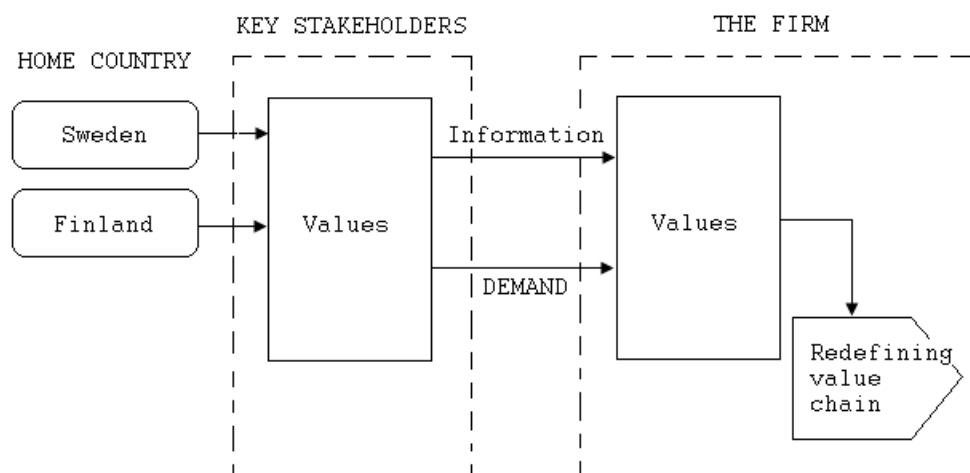
The purpose in the data collection is to cover the whole hypothetical model and all working propositions. The themes are divided as follows:

*T1. Demand and supply for corporate responsibility*

This theme was chosen because it includes fundamental issues, such as demand for CR and possible underlying motives for CR. It is vital to canvas the driving forces behind this phenomenon. How will empirical data correspond with the basic assumptions of the hypothetical model?

*T2. Stakeholder orientation and the values of the case company*

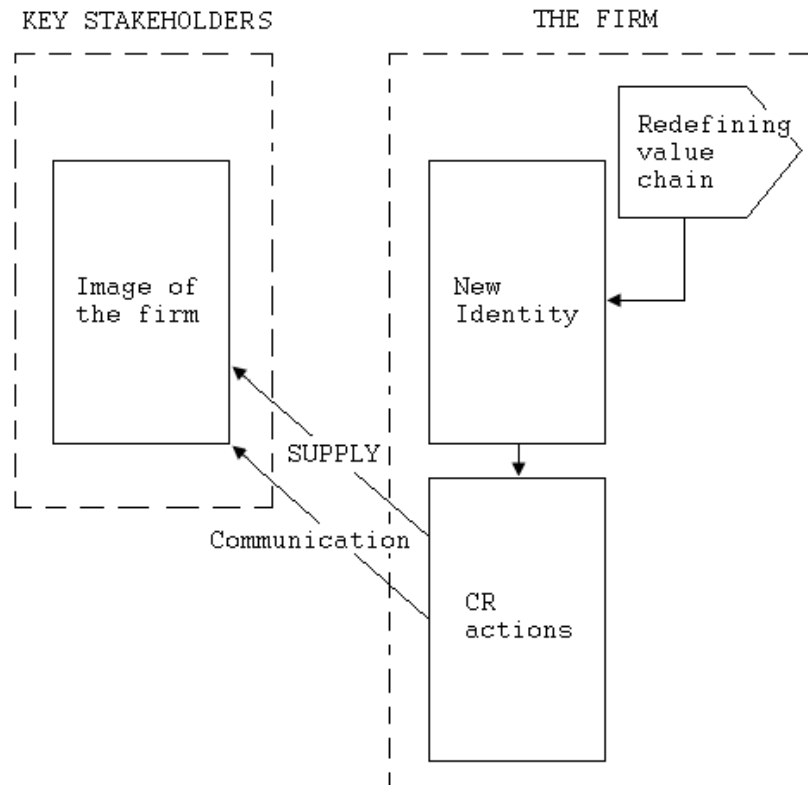
In the second theme, the stakeholder approach will be under a more detailed discussion. The purpose of this theme is to have a deeper understanding of role of the stakeholder and how it affects the values of the case company. The figure 19 is to demarcate the outlines for the second theme.



**Figure 21.** Outlines for the second theme.

*T3. A responsible image and identity*

The theme number three is to clarify the connections between image and identity. The role of the value chain and values will be brought up and discussed. In this way, the relationship of the second and the third theme will be dealt. As well as in the previous theme, this theme will be presented in a form of a figure (Figure 20).



**Figure 22.** Outlines for the third theme.

### 7.3.2 Data collection

The empirical data will be collected from both primary and secondary sources. *The primary data* consists of unstructured and semi-structured interviews in the Nordic hospitality industry. The purpose is to interview two key informants from the case company, one from Sweden and one from Finland. Hence a concise comparative part is possible to cover. This data collecting method is chosen because of its flexibility and capability to allow new questions to be brought up during the interview as a result of what the interviewee says. This characteristic is important for this study because of the slight exploratory nature of the research problem.

In these in-depth interviews, as it is characteristic for them, the structure is rather loose. The conversation will be carried through with specific themes which are derived from the theoretical framework. The interviews are conducted on a one-on-one basis and estimated to last 60-120 minutes. The

purpose is to uncover underlying practices and attitudes behind the case company's environmental responsibility process.

**Table 11.** In-depth interviews' advantages and disadvantages (Malhotra & Peterson 2006: 161-163).

<b>Advantages</b>	<b>Disadvantages</b>
Can uncover deeper insights about underlying motives;	Expensive and difficult to find - only small number of interviews can be conducted in a project;
Attribute the responses directly to the respondent;	Lack of structure makes that results susceptible to the interviewer's influence;
Result in a free exchange of information - no social pressure;	The quality and completeness to the results depend heavily on the interviewer's skills;
Possibility to get at real issues when the topic is complex.	Data obtained are difficult to analyze and interpret.

The first key informant to be interview is Aarre Hallama, the CEO in Scandic Finland. He will be interviewed because of his knowledge concerning the case company's strategic decision making and the role of stakeholders, especially in Finland. He also works in a close cooperation with the Swedish management and corporate board of directors.

The second key informant to be interviewed is Jan Peter Bergkvist. He has worked in several positions in the hospitality industry for almost all his life. During 1990-2000 he worked in managerial positions at the hotel level. From 2000 onwards he worked in corporate positions, inter alia as the Vice President Sustainable Business and part of the executive management. Since the 1st of January 2009 he has worked as an advisor for sustainable business (an entrepreneur) for Scandic. He is selected to the study because of his expertise in corporate responsibility and Scandic's stakeholders, especially in Sweden. He has a wide strategic and a holistic understanding of the whole hotel chain, since

he is in close contact with the board of Scandic. In addition, he has a long history in the hospitality industry, also outside the case company.

In addition, after the second interview, a tour will be organized around Scandic's flagship hotel in CR, Anglais in Stockholm. During and after this tour an informal conversation takes place with the case company's Sustainability Controller, Inger Mattsson and a hotel manager, Heidi Granberg.

The *secondary data collection* consists of selecting the most essential documents and archival records about the case company and about the Nordic hospitality industry. Most of these are available via internet, from the websites of the case company. The purpose of the secondary data is to prime and support the collection of the primary data, and prevent the collection of the same data twice. This procedure will spare time and will enable focusing on the most important and underlying data during the interviews.

### 7.3.3 Data analysis

Rest of the reduction will be done during the data collection and after the data is collected, for example by doing summaries, coding, making partitions and writing memos). Even though data reduction is nothing separate from data analysis (Miles & Huberman 1984: 21), the operation leads the study to the analyzing process.

In order to answer the research questions and working propositions, the collected data needs to be thoroughly analyzed. According to Yin (1984: 105) "data analysis consists of examining, categorizing, tabulating, or otherwise recombining the evidence, to address the initial propositions of a study". He presents two alternative strategies for data analysis: relying on theoretical propositions and developing a case description. Because there exists a solid theoretical base in literature for working propositions, the first strategy is chosen. The working propositions and themes help to focus on the substantial questions that need to be covered in order to encompass the hypothetical model. The data is organized, as well as it is analyzed, according to these three themes and five working propositions.

#### 7.4. Evaluation of the research

Even though there has been discussion about the problematics concerning the evaluation of a qualitative research, according to Morse, Barrett, Mayan, Olson and Spiers (2002), reliability and validity will remain appropriate concepts for attaining rigor in qualitative research.

Since reliability and validity are rooted in positivism they should be redefined to fit qualitative methods (Golafshani 2003). Already in the 80s, Guba and Lincoln substituted reliability and validity with a similar concept of “trustworthiness,” consisting of credibility, transferability, dependability, and confirmability. (Guba 1981; Guba & Lincoln, 1982). Being so, the trustworthiness of this qualitative research will be evaluated through these four concepts.

*Dependability* Since opinions of management, strategies and other codes of conducts change over time – it is likely that the results of this case study will not be same if the interviews are carried out at a later point of time. However, at present time, the procedures at the case company are rather fixed; it is assumed that the interviewees have the knowledge of these procedures; and that the interviewees will speak as truthful as they can. In addition, the data triangulation increases the dependability, as the company documents can be compared with the interviews. To enhance the dependability, critical documents from impartial sources might have been useful. Also the amount of interviewees would have enhanced the dependability of the study.

*Transferability* The purpose of the theoretical, hypothetical model was to increase the transferability of the study, since it was not industry specific. However, in the empirical part the instrumental case study took place in the Nordic hospitality industry. Therefore the results are at least transferable to similar firms but also perhaps to firms in other industries. It seems that the size or field of the company nor the industry will itself affect the results. However, the situation within the industry, i.e. the competitive situation could affect the results. Therefore, it can be said the results are transferable to similar competitive environments in which a firm has a rather dominant market position.

*Creditability and Confirmability* The study was conducted with as much transparency as possible. The interviews with key informants were recorded and transcriptions were made. The written and analyzed data equates the actual conversation – the tapes were listened twice. The researcher of this thesis conducted all of the interviews by himself.

One common problem of case studies is the generalization of the results; however, as Uusitalo (1991: 39) mentions that what is lost in the generalization is won in the depth and richness of the content. And according to Niiniluoto (1980), in the case of applied science, also what this study represents, the results of the research should be evaluated based on the pragmatic usefulness of the results. Hence it will become a question of the relevance, simplicity, and handiness of the results (Niiniluoto 1980).

Yin (1989: 38-40) distinguishes the statistical generalization and theoretical generalization from each others, since case studies only aim to make theoretical or analytical generalizations. Even though they are not statistically valid, according to Yin (1989: 38-40), it is still possible to make theoretical and valid generalizations outside the studied case.



## 8. EMPIRICAL FINDINGS AND ANALYSIS

In this chapter, the results of the collected empirical data are represented, evaluated and analyzed. First, the case company and its operational environment are presented in more general terms. After this, the structure of this chapter follows the three themes and five working propositions set earlier in the study. In the next table (Table 12.) the themes and working propositions are displayed, as well as depiction of how they relate to one another (the order).

**Table 12.** Themes relating to working propositions.

Themes	Working propositions
T1. Demand and supply for corporate responsibility	P1. If demand for corporate responsibility does not exist, firms can create it by supplying corporate responsibility.
T2. Stakeholder orientation and the values of the case company	P2. A key stakeholder oriented firm forms and re-forms its values according to its key stakeholder's values.
	P5. A key stakeholder oriented firm adjusts the amount of its CR activities, according to the context of its key stakeholder at issue.
T3. A responsible image and identity	P3. A responsible identity is built upon the whole value chain of the firm.
	P4. A reflected image is more likely to lead to desired results than a merely pragmatic image.

Since all the collected primary data from interviews was greatly parallel, i.e. the opinions of interviewees were very much alike, the findings are presented mainly without referring to an interviewee. Instead, it is assumed, especially when they were greatly parallel, that they answered on behalf of Scandic to their best knowledge. Therefore this chapter presents findings from Scandic, the case company, instead of as findings of individuals' thoughts. Unless the answers or opinion are even slightly contradictive, then the comments of

interviewees are written out with references to the respondent at issue. A reference to the secondary data is within brackets.

### 8.1. Presentation of the case and industry

The core business of Scandic is to develop and run hotels through tenancy agreements, franchising and their own hotel operations in Europe, with the Nordic region as their home market. The case hotel chain operates in nine countries with 145 hotels, mainly in the Nordic market but extending their appearance in Northern and Eastern Europe, the Baltic States and Russia. (Scandic 2009a, 2008d.) When Scandic has 72 hotels in Sweden, the same figure in Finland is only 23, however, making it the second largest amount of hotels in one country (Scandic 2008d).

For values, Scandic (2009a) introduces a three dimensional model which consists of 1) the financial result, showing how well they manage their stakeholders' money and create financial value; 2) the environmental result, showing on what degree they succeed in reducing Scandic's environmental impact; 3) the ethical result, showing how much they contribute as a committed member of society. This is closely related to the three elements of corporate responsibility: economic, environmental and social (Figure 11 in chapter 4.1.).

In the financial year of 2008, as well as in 2007, Scandic has increased its revenue. In 2008 the revenue was 758.5 MEUR and gross profit 311.5 MEUR. While at the same time, Scandic decreased their unsorted waste, energy and water consumption and CO<sub>2</sub> emissions (Hospitalitynet 2009, Scandic 2009). It can be said that financial growth and focus on environmental issues have occurred simultaneously (Table 13).

A brief industry competition analysis suggests the case company as a hospitality industry leader in responsible business. The case company sees taking responsibility for the environment as an obvious necessity. "Through active work and awareness, we can influence others to help make a sustainable society, which is, of course, also our own objective" (Scandic 2008d). Examples of the case company's responsibility are numerous prizes and accolades, for example the SKD Euroconfs Miljöpris, IMEX Green Meetings Award, Global

Tourism For Tomorrow Award, Best CSR Programme, The Sustainability Award, and the Best Environmental Work (Scandic 2008d).

**Table 13.** Sustainability report comparison (Scandic 2009a).

	CO2 emission (Kg/gn)			Water consumption (l/gn)		
	2001	2007	Change	2001	2007	Change
Hotels in						
Sweden	1,831	1,174	-36 %	221,62	209,1	-6 %
Finland	6,993	6,375	-9 %	245,8	217,84	-11 %

	Energy consumption (kWh/gn)			Unsorted waste (Kg/gn)		
	2001	2007	Change	2001	2007	Change
Hotels in						
Sweden	45,69	38,54	-16 %	0,486	0,534	+10 %
Finland	65,56	58,25	-11 %	0,583	0,463	-21 %

Arguably, these recognitions are results of their sustainability policies (see Figure 11. for terminology), such as constant reporting of their energy consumption, travel policy, eco-labelled hotels, organic breakfast, and fair-trade coffee.

In a global scale lately, demand and supply of hospitality services beyond the traditional accommodation have escalated the growth of the hospitality industry, leading to greater competitive forces in the industry (Kandampully & Suhartanto 2000). On this global level there are only three model examples that go beyond traditional services with sustainable business in the hospitality industry: Fairmont hotels in Canada, Six Senses in Asia, and Scandic in Nordic, Bergkvist (the former Vice President Sustainable Business in Scandic and a current Sustainable Business Advisor for Scandic) mentions. Bergkvist agrees that there is an increasing competition, even though there is no other company in this region of the world that has especially sustainability as integral part of their strategy. Increased competition results in an increased need for auditing and understanding of the Porter's five forces in the competitive environment.

According to Kandampully and Suhartanto (2000) the two most commonly used competitive strategies by hotels are either low-cost leadership through

price discounting, or developing customer loyalty by providing unique benefits to customers. This is in line with Porter's generic strategies and competitive strategy. At Scandic, however, it is both. Corporate responsibility as a strategy, is a question of creating both cost efficiency and differentiation. Typically the positioning school sees that firms must either gain cost advantage or differentiate themselves because if a firm tries to offer both, it can easily get stuck in the middle and end up with no competitive advantage at all. (Porter 1985: 12.) CR seems to make an exception to Porter's view.

Kandampully and Suhartanto (2000) state that the competition has had major implications for the stakeholder, providing: increased choice; greater value for money; and augmented levels of service. In addition, there are only few features to distinguish one hotel's products and services from another, which highlight the significance of differentiation. The key to a hotel's ability to differentiate itself from its competitors and to gain customer loyalty is the quality of service. (Kandampully & Suhartanto 2000.)

For Scandic it is extremely important that they share the values with the loyal guests, as well as their ideas and their commitment. The loyal guests are Scandic's key guests the amount is impressive: "we talk about 40 per cent of the total stock of guests, which I think is a world record when it comes to loyal guests", Bergkvist states.

Reicheld and Sasser (1990) have found that a 5 per cent increase in customer loyalty can produce a profit increase of 25 per cent to 85 per cent. However, merely by satisfying customers, firms cannot improve their profits, since there is no guarantee that satisfied customers will return to purchase (Kandampully & Suhartanto 2000). Hence the customer loyalty seems to be more important than customer satisfaction.

Also, a hotel image is an important factor, and maintains a relatively high score rating among loyal customers (Heung, Mok, & Kwan 1996). Kandampully and Suhartanto (2000) suggest that "a desirable image leads to customer satisfaction and customer preference, while an undesirable image may lead to dissatisfaction". Being so, the relationship between image and loyalty has shown proofs of its existence in the hospitality industry. The high number of loyal guests at Scandic could then refer to a successful image.

## 8.2. Supply and demand for corporate responsibility

It takes back to early nineties, 1992-1993, when Scandic came up with the idea of CR. Back then the company was more or less bankrupt and they changed the management of the company. First time in that very conservative business, they brought in an industrialist, Roland Nilsson, from a foreign company. He was asked to form a new management group and to save Scandic. One of the things he said was that: "let's build a strong brand". In the early nineties in Nordic hospitality industry this was almost revolutionary. And he continued by saying that "let's build that brand through shared values - values that you can share with your team members, customers, and guests". The Nordic values, especially Swedish at that time, were easy to find and form, and they concerned the environment.

That miljöprogram, or environmental program has now broadened into what Scandic calls sustainable business or corporate responsibility. Demand in Sweden did not really exist for CR. But if compared to many other countries, there was probably higher demand anyhow since environmental devotion had always been a part of Swedish culture. However, CR was not driven by customers or suppliers or guests or owners. Instead, CR was driven by Roland Nilsson's management that wished to build a strong brand - an intelligent cutting edge idea by a strong idea.

The management saw an opportunity in being part of the solution (meaning environmental protection) and focusing on environmental issues instead of contributing to the problems (meaning environmental exploitation). This was very much due to the fact that he met with The Natural Step (TNS), which gave him the intellectual framework that Scandic has been using since.

The management team invited Karl Henrik Robèrt (a representative of TNS) to a meeting in February 1994. After this meeting the Executive Committee agreed to pursue sustainability as a strategic initiative using the TNS system conditions as a model: "No company can avoid taking responsibility for the environment and focusing on environmental issues. Scandic shall, therefore, lead the way and work continuously to promote both a reduction in our environmental impact, and a better environment. Our goal is to be one of the most

environmentally friendly companies in the hotel industry and to conduct our business on nature's terms." (The Natural Step 2009).

Today, as well as in the nineties, Scandic is a supplier of CR. Almost every Western, or any company in the world, has nowadays some kind of CR policy. When it comes to travel and accommodation, Scandic is definitely a top facilitator of CR. "Soon after starting to supply CR, Scandic noticed that CR was not merely charity – instead, it involved aspects that increased cost efficiency", Hallama the CEO of Scandic Finland points out. As a very trivial example, he mentions the usage of bulk marmelade and butter instead of single packed packets. Another example of this win-win situation is consumption of energy. Arguably the transparency, for example, in measuring environmental impacts of hotels has a positive impact on stakeholders.

When Scandic started to supply CR (i.e. Scandic created demand) the demand responded, but rather slowly. The first stakeholders that noticed Scandic's CR actions were business-to-business (B-2-B) customers that themselves were interested in CR and environment. They were triggered by the fact that Scandic was out quite early doing this. Secondly became aware the government bodies and authorities, and as they had environment policies as well, they started to realize that they should live their policies. Thirdly, the guests with individual engagement came along.

So there is a time delay between action and perception (a time delay of three years or so), especially if you are a Nordic company and not doing too much marketing and bragging about what you are doing. Bergkvist estimates that if the CR program started in '93-'94, then it was not until '96 that Scandic was beginning to be perceived as the leader within the area of environmental businesses. And Bergkvist thinks that there still is a misperception: "customers and guests may not know and understand that we're doing quite well. Obviously we haven't been successful in telling it or maybe just we just have to accept it that it takes time".

Scandic did not start all their different programs that they are doing today at once. The initial focus was on environmental sustainability. "In environmental responsibility we have a program of small, determined steps, and that is the only way to respond to it, as it (environmental responsibility) is so vast",

Hallama states. He continues that the “more we have discussed with our stakeholders, [the more] we have noticed that they have similar programs”. But the strength of having a broad sustainability program makes different kinds of individuals attracted to different parts of the sustainability program. This way almost everyone can relate to some issues of responsibility. Thus a broader spectrum of sustainability initiatives builds a more inclusive image and creates value to a broader body of stakeholders.

If CR can have any value at all for any company, it must be a strategic issue. Companies that see CR as something that marketing department could take care of would probably do better by not doing anything at all and put the money to something else, Bergkvist advises. In order to be successful in the area of strategic CR, firms must be driven by top management. Hence it is a question of managerial competence and guaranteeing that a company actually survives in the long run.

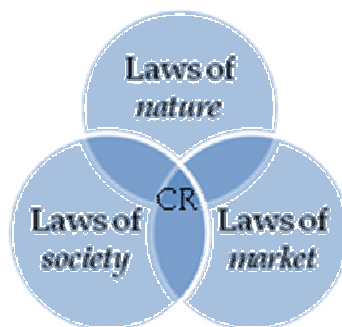
The demand for CR has changed as time has passed by. “Since the nineties the demand for CR has become more active”, Hallama sees it. When Scandic started their supplying of CR and image building through CR, they had to communicate actively their deeds. Today however, it is almost the other way around. According to Hallama, “the external stakeholders have become keen on what Scandic has done lately, and expect high environmental responsibility from the company”. He concludes that demand and supply have become unilateral, “Scandic supplies CR and stakeholders demand CR”.

The demand for CR is different in different countries Scandic operates in. Sweden as a country is the forerunner in environmental responsibility. “It seems that the clientele in Sweden demands for the highest CR in Scandic’s countries of operation”, Hallama thinks. On a more general level, according to Haltsonen (2004), only the biggest corporations in Finland have standards, such as codes of conducts, for environmentally responsible business - whereas the Swedish companies seem to be steps ahead. Arguably, the rise of ethical consumerism in Sweden (Pruzan 2001) has not reach Finland as clearly. Bergkvist sees that the CR trend is occurring with a delay of 5-8 years in Finland when compared to Sweden. However, he stresses the stereotypy that “when things happen in Finland they happen fast”. For greater demand in Sweden, Bergkvist mentions people’s closeness to nature and no wars as

possible reasons. Likeness between Swedes and Finns is the closeness to nature, which is a strong (environmental) driver.

In Sweden, as well as in Finland, Scandic has always tried to be in the forefront in environmental issues. The amount of CR depends on the indicators used. Indicators for the amount of *demand* for CR can be measured e.g. with the amount of focus in media, in political and in social debates, or B-2-B and B-2-NGO audits, as well as with guest questionnaires. One key performance indicator to measure the *supply* is the number of eco-labeled hotels in a country. For example, in 2004 Scandic Sweden became the world's first eco-labeled hotel chain, including all the Swedish hotels under Nordic Swan. Sweden has now around 150 Swan labeled hotels, whereas Finland has 15. The supply and the demand for CR are behind in Finland. In 2008, competitors like Best Western and SAS-Radisson have started their journey towards eco-labeling. Bergkvist is quite positive that they were more driven by demand for CR.

What has been driving Scandic is the vision and knowledge that it is more profitable in the short and long term to reduce and reuse hotel's resources sufficiently, and all these things contribute to the society and environment. The drivers are related to the laws of nature (the human kind will not survive if we do not change) and the laws of society (laws and regulations become stricter). In addition, Scandic is convinced that CR is profitable both in short term and long term. Thus can be said that financial aspects are also driving the case company that could be seen as laws of market (competition increases, which means that resources must be used sufficiently and stakeholder expectations are leaning towards greener companies). These megatrends or ultimate drivers are the underlying reasons for CR supply. (See Figure 21.)



**Figure 23.** The three laws of CR supply.



Scandic knows that sooner or later all companies must work towards sustainability. Therefore they have decided to do it smarter than competition (e.g. use their resources more sufficiently) and do it before the competition. Scandic's view is that by becoming perceived as a leader within CR they will also become more profitable.

The first working proposition suggested that:

*P1. If a demand for corporate responsibility does not exist, firms can create it by supplying corporate responsibility.*

This proposition seems to have some value since the case company started to supply CR without existence of actual demand for it. Within a time frame of three years or more, demand became active. On the other hand, there is no proof that specifically the supply by the case company created the demand.

The first working proposition can thus be partly validated, however, only under similar conditions that the case company had. One of them was the rising awareness in environmental issues and the other one was the first mover situation within the industry.

In addition, it is notable that even though the demand responds to the supply of CR, there is a time delay between action and perception. However, it is likely that a firm can hasten the time in which demand responds with successful marketing. Therefore a revised and supported proposition would be that *if a demand for corporate responsibility does not exist, firms can hasten its emergence by supplying corporate responsibility.*

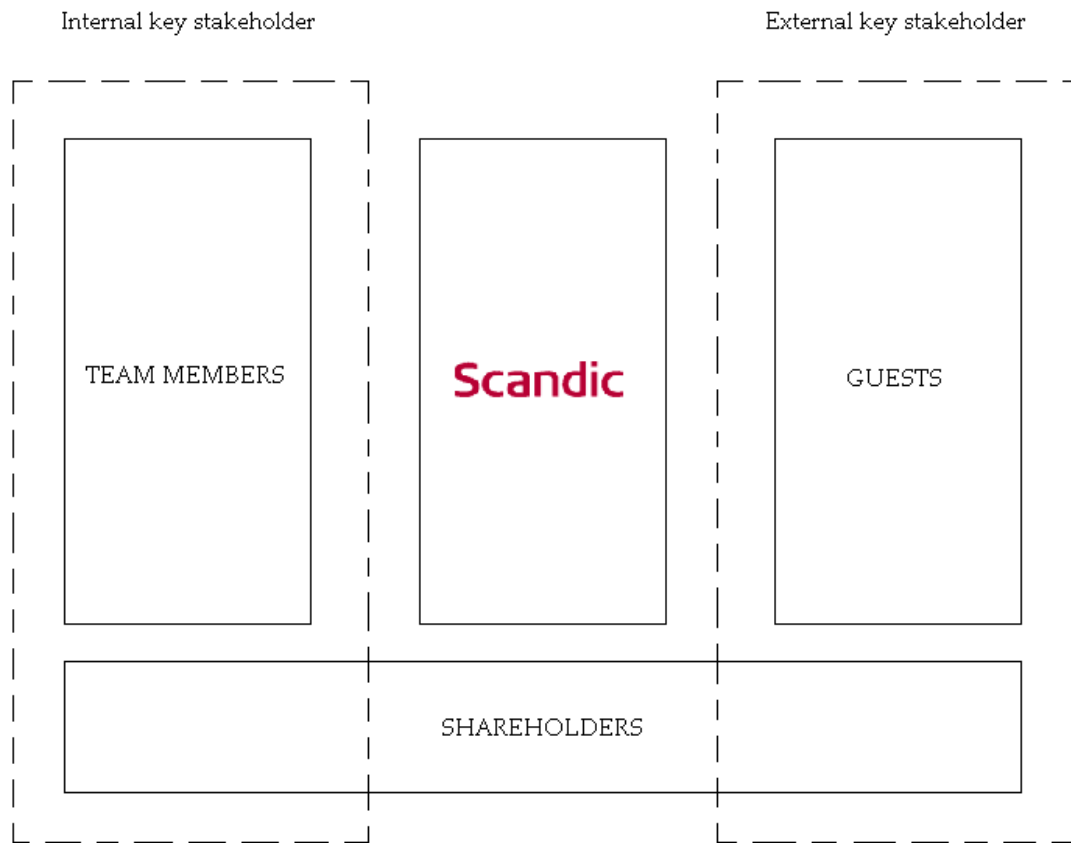
### 8.3. Stakeholders and values

Among others, Scandic's key success factors are the leading position in sustainable business and their consideration for their stakeholders (Scandic 2008f). According to Bergkvist, "stakeholder for Scandic is everybody around: owners, guests, customers (guests being the ones staying at hotel and the customers being ones paying for it), politicians, governmental parties, team members, NGOs, independent bodies of different kinds, and so forth".

At Scandic's websites, the key stakeholders of Scandic are guests, customers, owners, society and team members (Scandic 2008d). During the interviews both respondents narrowed key stakeholders down to three: guests, team members and owners. However, the ordering varied from owner-focused to guest-focused.

The *guests* are on the list instead of customers because they are the reason for the business, not the customers. Bergkvist sharpens that "if the guests do not want to stay at the hotel, all customer agreements will be short lived". The *team* is a key stakeholder because Scandic is selling feelings and care. At Scandic team members are everybody from the person at the reception to Frank Fiskars the CEO. And "that is the product and especially the differentiator because a bed is a bed is a bed", Bergkvist stresses. Third key stakeholder is the owners, and they are separate from the team. This is so because shareholders' drivers are, perhaps, different from the rest of the team. Arguable also, there is a difference between a listed company and private – listed driving financial short term performance more aggressively than private equity owned, like is the case company.

The key stakeholders of the case company are presented in the Figure 22. As the shareholders are an own group between internal and external stakeholders, they often are also team members and guests, and vice versa. The words "internal" and "external" are added to the concepts of key stakeholders (by the researcher) because this way they describe the functions more informatively. The function of internal key stakeholder is to operate from inside to outside the company, whereas the external key stakeholders operate from outside to inside the company. The concepts of "internal" and "external" describe both physical and mental existence of people. For example, guests (external key stakeholder) come physically to the company with for their own purpose that is mental. Whereas team members (internal key stakeholder) are physically at the company with their (more or less) parallel purpose with the company. Shareholders once again can be anything in between.



**Figure 24.** Key stakeholders of the case company.

Shared values with key stakeholders has been the driving force since CR started at Scandic. The values of the key stakeholders are vital since “when we build a sustainable brand it is important that we share the values, because when you and I share a value you can even excuse one or two mistakes that I do, as a supplier, and say that this time it wasn’t good at Scandic but I liked the fact that there the safety and security program are really good, or that they work with accessibility or whatever.”, Bergkvist summarizes. Also in the extended value chain (i.e. supply chain or business network), whether it is a supplier, an organization, or an association, companies tend to choose the ones that share their values.

**Communicating values with external stakeholders.** A change in guests’ values would be a new situation to Scandic. The case company has not used to a responsive role since it has always been the facilitator of these values. However, Hallama states that “if changes occurred in the key stakeholder’s values, Scandic would try to respond and adapt its offerings in a way that would add

value to the customer". This is done when customers show strong signs of long-term changes in their values. Hallama continues that "it does not mean that the basic, core values change – they will only be updated to meet the modern-day spirit".

An efficient way to communicate with external key stakeholders is the eco-labeling (Nordic Swan, KRAV, Luomu). At Scandic it is especially the Nordic Swan, which is primarily an end-consumer tool, but has proven to be a very useful B-2-B tool as well. Sustainability Controller of Scandic, Inger Mattsson, explains that the standards prove that Scandic meets certain level of environmental responsibility, and therefore makes it easier for Scandic to enter into contracts with suppliers. "The Nordic Swan saves a lot of my time since I am free from explaining everytime how responsible Scandic is", Mattsson mentions.

A well trained and educated sales force is also an extremely important communication channel both in business-to-customer (B-2-C) and B-2-B. In addition Scandic communicates through icons and artefacts (e.g. bottled water, material in the lobbies, wooden pens). Today Scandic is focusing closely on what they call tangible storytelling. Bergkvist mentions an example of this: "when you get your coffee, you should get right up in your face a very short text saying that by drinking this coffee you change the life circumstances for the ones picking the beans down in Costa Rica." More tangible the communication is, more effective it will become.

When the respondents explain the communication and sharing of values between Scandic and the external key stakeholder, inevitable it seems to a monologue rather than a dialogue. The case company admits that the "dialogue" with customers is a struggle for Scandic and it does remind a monologue from company to the guest. Being so, there is a huge opportunity to improve this process (if it is important to a firm in general).

But there are two old-fashioned ways to communicate the values of external key stakeholder to the firm – one is customer questionnaires and the other one is key customer evenings. These are definite and important dialogues with stakeholders.

The key customers are the biggest company agreements that Scandic has. These key guests are the loyal guests and they are in a loyal-guest-program. "We talk about 40 per cent of the total stock of guests, which I think is a world record when it comes to loyal guests. You could compare to Hilton I think they have 12 per cent of loyal guests.", Bergkvist states. This loyal program is an important channel of communication of guests' values. It is extremely important that Scandic shares the values with their loyal guests, as well as their ideas and their commitment.

**Communicating values with internal stakeholders.** Scandic knows their teams' values through a dialogue processes. These processes are half day seminars with a specific theme that includes discussion, working in groups, conclusions, and a new plan for the hotel. And that is a very strong bottom-up approach to sharing knowledge, understanding and values.

The second working proposition was that:

*P2. A key stakeholder oriented firm forms and re-forms its values according to its key stakeholders' values.*

The brand building through shared values with team members and guests in the case company refers to stakeholder orientation. It was found that to some extent Scandic re-forms and modifies its values according to external key stakeholders (guests) values, and to a great extent in accordance with internal key stakeholders values (team members). These pieces of information supports the second part of the second working proposition (*re-forms its values*).

Since, in the first place, the environmentally responsible values came from the team members, especially from the management, it can be said that the case company (as Scandic is a stakeholder-oriented firm) formed its values according to its key stakeholder's values (as the team members are a key stakeholder and as the management is part of the team members at Scandic). This reasoning supports the first part of the second working proposition (*forms its values*). On the other hand, the case company did not form its values accordance to the external key stakeholder's values. Therefore an important notion is made: the case company as *a key stakeholder oriented firm, does not form and re-form its values according to its external key stakeholder's values.*

But even though the case company did not form its values based on both internal and external key stakeholders' values, it did form its values in accordance with key stakeholder's values. Therefore the proposition will be verified based on the knowledge from the case company.

But this raises a question of what is a firm really? It seems somewhat rational that the boundaries are drawn to exclude external stakeholders but what about internal stakeholders? Are they the company or is the company a separate entity? If internal stakeholders are the company, then are the owners outside or inside the boundaries of the company? Be that as it may, this thesis takes a perspective of seeing a firm as something between (and within) internal stakeholders, external stakeholders, and shareholders. (Figure 22.) After all, limited companies have corporate and legal personalities as well.

**Values in different countries of operation.** The values of the key stakeholders are different in different countries that Scandic operates in. According to Bergkvist this is due to the fact that "we are all different". It can be said that this difference in values affect the demand of corporate responsibility. Ideally, there should not be no difference at all in the supply of CR. Bergkvist explains that "it's because it is a prerequisite for all business (in every country) to be part of the solution (law of nature), not adding to the problem".

In the context of Finland and Sweden there are differences in CR values. However the differences are minor, especially if you take a relative perspective with all the countries in the world. But with an absolute perspective, there is more difference in the values. As earlier mentioned, there is also less supply for CR actions at Scandic hotels in Finland than in Sweden. (Table 9.) This is due to partly a little less demand (values) and partly to technical issues, such as a disagreement with real estate owners over changing hotels to be more "green".

If all the countries that Scandic operates in are dissected, the amount of CR is not very standardized throughout the hotels (relative perspective). But if the amount of CR operations are dissected between Sweden and Finland, then there can be found more closeness. "The closer you come to the head office, the more company like it becomes (law of society)", as Bergkvist informs.

In the comparison of the performed CR initiatives between Sweden and Finland, the case company showed higher CR standards in Sweden than in Finland (Table 9.). In 2007, the CO<sub>2</sub> emissions in Sweden were 1,174 Kg/gn, when in Finland they were as high as 6,375 Kg/gn. The figures are in kilograms per guest night, and therefore comparable. It seems that Scandic has focused to minimize especially the CO<sub>2</sub> emission in Sweden. Since, from the year of 2001 to the year of 2007, the change percentage was -36 whilst the same figure in Finland was -9. The consumption of water and energy were also clearly lower in Sweden, as well as the amount of unsorted waste. On the other hand, in the areas of water consumption and recycling, Scandic in Finland has improved faster. This could be due to the fact that auditing for CR actions has begun five years later in Finland, than it has in Sweden (Scandic 2009a) since in the beginning is easy to cut down emissions, for example.

The right amount of CR is when it becomes profitable today or maybe tomorrow, because “if you focus on the things that will become profitable 2025 you will eventually die because you will not be profitable (law of market)”, Bergkvist mentions.

Arguably, the rise of CR values in Sweden has not reach Finland as clearly. The Swedish key stakeholders seem to have more CR values than in Finland. In the case company, Swedish hotels perform higher amounts of CR activities than in Finland. This is due to less demand in Finland for CR and that relates to the *law of market* – firms must be profitable. Another reason for higher amount of CR in Sweden is stricter laws and regulations, relating to the *law of society*. Even though this is the situation (that the two laws “enact” and explain it), the case company pursues to have as standardized CR actions as possible. They are aware that it is “enacted” that all hotels must be responsible, and that is the *law of nature*.

Being so, the data speaks in favor of accepting the working proposition, i.e. that the context of the key stakeholders have an influence on the amount of CR activities.

*P5. A key stakeholder oriented firm adjusts the amount of its CR activities according to the context of its key stakeholders.*

The rationale is that firms are obligated by the law of market. However, it is very subjective that to what extent are they adjusting the amount of their CR activities according to the context. Theoretically speaking, they are *not* obligated by the law of market *before* they really are in a situation, in which they cannot do more CR activities – otherwise it would lead them into bankruptcy whereas the law of society sets the minimum amount but also directs companies to higher CR performance by becoming stricter. “It cannot be the last minute driving force; instead we have to be always a step ahead of it”, Hallama comments.

#### 8.4. A responsible image and identity

**Identity.** According to Hallama, Scandic’s identity is something that is “easy to approach, inclusive, and close”. When the interviewees were asked to describe Scandic’s identity both said *Stay Smarter*. The slogan “is not saying that the hotel is the most expensive or that it is cheap. What it says is that I want to be part of the solution, I am a conscience customer, and I am smart”, Bergkvist explains.

The role of CR is substantial in the identity since Scandic is a responsible company. The identity is seen to be parallel with their key stakeholders’ identity and with the way the world is going to develop. However, guests (key external stakeholder) have little effect on the corporate identity because they come in some many roles. On the other, the team members (key internal stakeholder), especially the management, are the ones that create the identity of a company and it is based on the corporate values.

The working proposition that deals with the third theme is phrased as follows:

*P3. A responsible identity is built upon the whole value chain of the firm.*

“Values are something that should be reflected throughout the business”, Hallama stresses. Therefore identity is not something that changes over a week, or two or not even a year. It was found that it is crucial that the whole value chain agrees with the values at the case company. This finding strengthens the working proposition. Bergkvist explains the reason for this: 1) firstly because it



is much more motivating for team members if they can participate and contribute to the identity building; 2) secondly, guests meet with team members and they have to have a lingua franca, a common understanding. "Otherwise an image from an agency says that this is the most sustainable company in the world, and then the team members saying that well we haven't heard that", Bergkvist describes and supports the proposition with his statement. As well as any identity, a responsible identity is built upon the whole value chain of a firm. Therefore the working proposition (P3.) can be verified.

The key internal stakeholder creates the responsible identity of a firm, and the creation is based on the corporate values (whole value chain), whereas the corporate values are based on the key stakeholders values. Therefore, in addition, it can be deduced that, to some extent at least, the identity of a firm is built upon the values of the key internal stakeholder.

**Image of the case company.** *Stay smarter* is also the image how Scandic wants to be perceived. In addition, the case company wants to be perceived as a little bit more sexy and edgy, since the sustainability movement has traditionally in Nordic been perceived as little too politically correct. In the Anglo-Saxon countries CR has been perceived as a little bit leftish.

The discussions around the image-identity of the company and corporate values are happening in the executive management and facilitated by an external agency. At the case company the identity leads – goes first and comes first. "Then obviously it will take some time when the image adopts", Bergkvist states. Hence there is a time delay. According to Bergkvist image building as well as identity, "are dialogue processes, in which absolutely everybody in the value chain takes part". When a responsible identity is built upon the CR values of the whole firm it will be reflected as a responsible image (that matches with the identity).

Being so, driving an identity must result as an image. If an image is built so that it does not correspond with what the firm is, then it is green wash. And that is only stupid or criminal, Bergkvist thinks. Hence the last working proposition receives strong support from the case company's context and is therefore accepted.

*P4. A reflected image is more likely to lead to desired results than a merely pragmatic image.*

**Table 14.** Themes and supported propositions.

Themes	Supported propositions
T1. Demand and supply for corporate responsibility	P1.* If a demand for corporate responsibility does not exist, firms can hasten its emergence by supplying corporate responsibility.
T2. Stakeholder orientation and the values of the case company	P2. A key stakeholder oriented firm forms and re-forms its values according to its key stakeholders' values.
	P5. A key stakeholder oriented firm adjusts the amount of its CR activities according to the context of its key stakeholders.
T3. A responsible image and identity	P3. A responsible identity is built upon the whole value chain of the firm.
	P4. A reflected image is more likely to lead to desired results than a merely pragmatic image.

\*=the proposition was revised.

The case company's key informant saw that the hypothetical model was well representing the practice of how Scandic uses CR in strategic means. However, image differentiation has not taken place at the case company to the extent of the actual delivery of their CR. In other words, the case company sees that they have supplied more than they have benefitted from CR, image wise. This could be due to incompetence in communicating CR or in a lack of awareness and appreciation among stakeholders.

In addition, according to collected data the hypothetical model needs to be revised. The modifications relate to a separation of key stakeholders and their roles at the case company. The revised model is presented in the next chapter.

## 9. SUMMARY AND CONCLUSIONS

As the last chapter, this part combines together the theoretical framework with empirical research resulting as a more accurate view of the phenomenon. The findings of the study suggested a revising of the hypothetical model. The revised model will function both as a summary as well as conclusions of the study. These are followed by concise managerial implications and suggestions for future research.

### 9.1. Environmental image led positioning

The purpose of this research was to explore and analyze the possibility of strategic implications of CR in a firm with a model building approach. From the findings it became obvious that to a large extent corporate responsibility can be and is a strategic issue. Corporate responsibility can increase cost efficiency by saving natural resources and increase differentiation by adding value to a firm through favorable image creation. Accordingly it seems that a firm can create and enhance its competitive position, at least in the hospitality industry. However, the model is not committed to that argument even though the question is related to the research problem. Instead, the following model (Figure 23.) describes *how a firm can position itself with corporate responsibility (CR) and in particular with environmental responsibility*. This model/study focused on the strategic positioning through image differentiation, and in particular with environmental responsibility.

The conclusions propose a corrective to a view of stakeholder approach or stakeholder theory. It was found that treating stakeholders as one group (in case of strategic CR) is an unacceptable loose and inaccurate point of view. This is because a firm has a myriad amount of stakeholders with different expectations and various interests that are often (also) contradictory. Therefore this study uses an modified approach to stakeholders that is referred as the *key stakeholder approach*. This key stakeholder approach to marketing management is very similar to the traditional stakeholder theory. However, the distinctive factor is fundamental and it is based on the idea of a firm's incapability to cater all stakeholders. Therefore, in the key stakeholder approach, firstly, the most important stakeholders are identified from the mass of other stakeholders. And

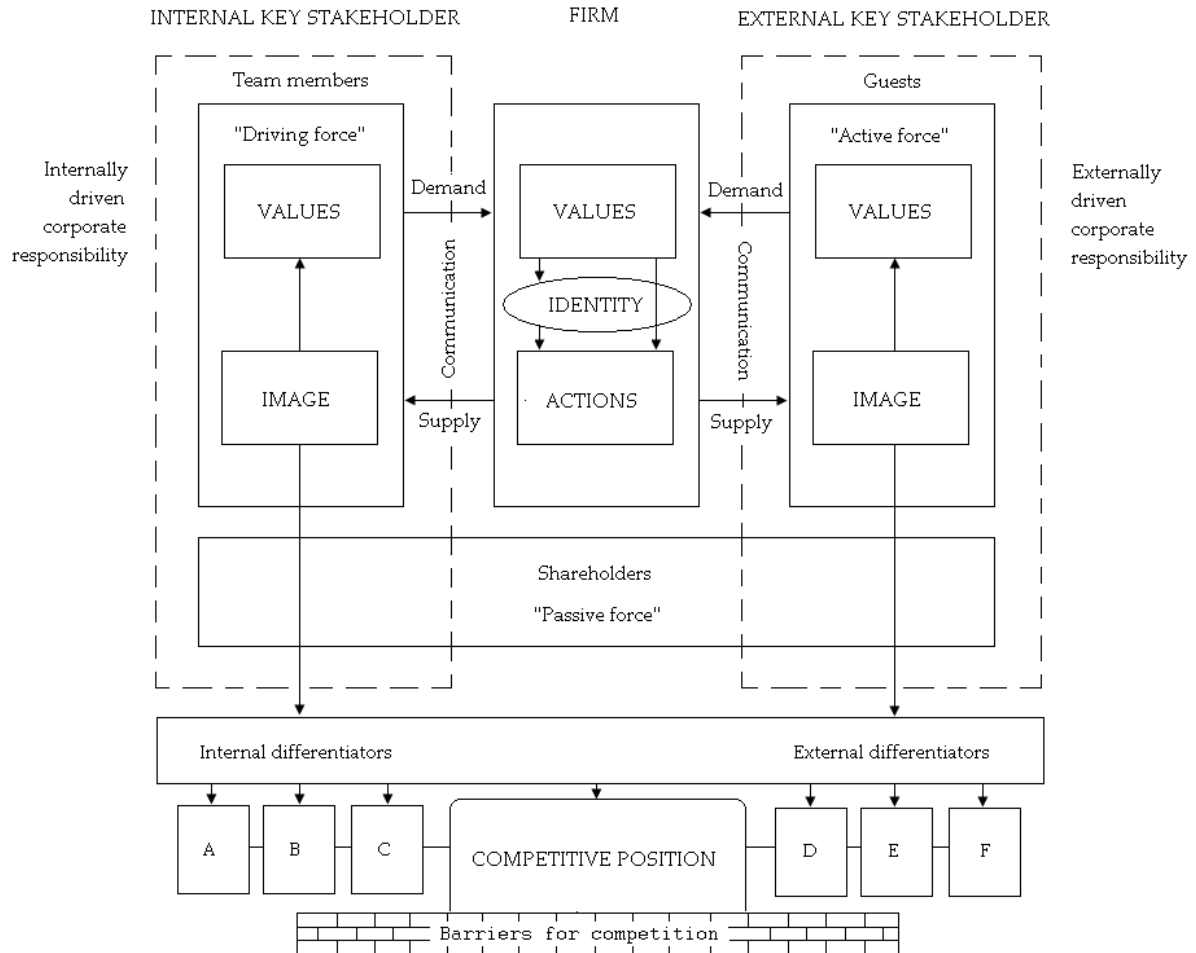
secondly the approach focuses only on these key stakeholders' expectations and interests. This slightly alternative "branch" of the traditional stakeholder theory is now applied in differentiation strategy through a responsible image.

In the revised model (Figure 25.) the key stakeholders are divided into internal and external parties. In this specific case study, corporate responsibility was internally driven (starting from the left side) by the team members. Therefore they are referred in the revised model as a "driving force". However, corporate responsibility can also be driven by external stakeholders, i.e. externally driven corporate responsibility. In this case study, the external key stakeholder was not in the beginning a driving force for CR – yet they did become active after the case company started to supply CR. Therefore the guests are referred as an "active force", as they began to demand corporate responsibility from the case company. This study suggest that (P1.) *if a demand for corporate responsibility does not exist, firms can hasten it by supplying corporate responsibility.*

In addition to internal and external key stakeholders, there exists key stakeholders that belong to both and/or neither parties, e.g. shareholders in this case study. Especially, the interests and the amount of initiative are the distinctive factors between key stakeholders. In the case company, shareholders were more driven by financial gains than the other two key stakeholders. Since they lacked interest in corporate responsibility they are therefore referred as a "passive force". This lack of interest in CR could have been due to the fact that they did not find responsible actions profitable enough. The key stakeholders in the model are team members, guests and shareholders, however they can vary according to firms and industries under scrutiny.

According to the revised model, a firm can position itself with corporate responsibility (CR) and in particular with environmental responsibility through an environmentally responsible image. An environmentally responsible image is a perception in key stakeholders, both in internal and external (key) stakeholders. The responsible image results as both internal and external differentiators that lead to the desired strategic position. The internal differentiators and benefits of an environmental image are a) a more preferred employer, b) an enhanced employees' motivation, and c) cost savings. The external differentiators or benefits of an environmentally responsible image are

d) a better reputation, e) a more preferred partner and supplier, and f) a greater guest loyalty.

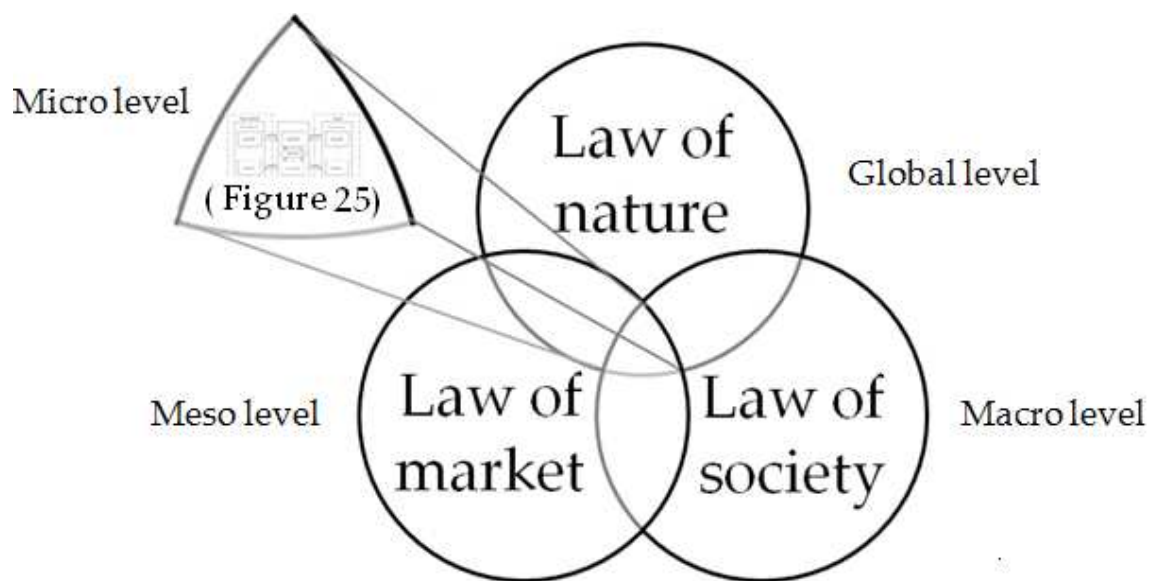


**Figure 25.** Positioning through an environmentally responsible image.

The image perception is built through communication (supply) that is based on actual CR actions since (P4.) *a reflected image is more likely to lead to desired results than a merely pragmatic image*. The amount of CR actions vary in different countries of operation since (P5.) *a key stakeholder oriented firm adjusts the amount of its CR activities according to the context of its key stakeholders*. The CR actions that a firm renders are reflected from the firm's responsible identity – however, the identity is not affected everytime there is a change in corporate values, or at least there is a time delay. The responsible identity is a result of internalized CR values throughout the whole value chain of a firm since (P3.) *a responsible*

*identity is built upon the whole value chain of the firm. These transfigured values are originated from the key stakeholders' values since (P2.) key stakeholder oriented firm forms and re-forms its values according to its key stakeholders' values.*

Based on the previous literature and empirical data, a firm faces forces and pressures that direct firms to corporate responsibility on four different levels (Figure 26). On the micro level, which the revised model illustrates, firms operate under stakeholder expectations. On the industry level, or meso level, firms are pushed to CR by their partners and competitors. On the macro level, firms are required to supply CR de jure, i.e. in accordance with society laws and regulations. And lastly on the highest level, the global level, firms are pushed towards corporate responsibility by the fact that the present ecosystem is fragile and necessitates increased attention in protecting it or at least not exploiting it too heavily.



**Figure 26.** Four levels of CR drivers

Even though this study focused on the differentiation strategy instead of cost leadership strategy, it can be concluded that the image differentiation with CR is inclusive to cost efficiency. These generic strategies should not be seen as entirely separate or different options, especially in the case of the

environmentally responsible image. As Hollensen (2007: 119) concluded that “firms have a competitive advantage in a market if they offer products...with higher perceived value to the customers *and* lower relative costs than competing firms”. With a right type of management, corporate responsibility can be a matter of increasing both the value (as the value chain activities are chosen on the basis of their importance to key stakeholders) and lowering costs. In addition, the customers’ perceived value can even be partly derived from the cost efficiency performed, as long as it is environmentally friendly. To a large extent it then becomes a question of successful marketing communication with key stakeholders since potential stakeholders must be fully aware of the CR characteristics a firm performs. However, it should not exceed (in any case) the amount of performed CR, otherwise it is considered as green-washing, and that can have fatal consequences on a corporate image and reputation.

## 9.2. Managerial implications

Strategic positioning with image through corporate environmental responsibility is a question of managerial competence. Corporate responsibility is about guaranteeing that a firm actually survives in the long run. Managers must take into consideration the short and long term economic and environmental responsibility. A company that becomes environmentally responsible can reap easy cost benefits, both in short and long term, by using their resources efficiently. This is the first step towards the strategic position. However, depending on the industry, competitors might have utilized the first step of CR and therefore it is unlikely to result as a CR image. The CR image is always relative to the context and competitors. If CR is desired, or forced, to be taken further, the second step is to meet the industry average. Arguably, in this case, the effect of CR is neutral to the image. In the third phase, the CR actions are taken above the average of the industry. It can be assumed that from there the effects of CR can be positive to the image. The fourth step is to become an industry leader and arguable, the positive effects on image increase. However, it is vital to understand that image and identity building takes time. It is also dependent on the history of a firm, i.e. how responsible have they been.

Therefore, managerial suggestions are that companies that start near scratch, should start with a vast announcement of their pursuit and desire of becoming a

more responsible company. Giving a clear message to all stakeholders is important, so that they know which way the company is moving. No company can market themselves as a fully sustainable company since that does not exist. More or less, all CR companies are working towards sustainability and are not there yet, therefore, a firm should prefer the discourses that are relative e.g. corporate responsibility.

A key to successful position lies in the management capabilities to estimate and decide the right amount of CR. In this task on the micro level, the key stakeholder oriented model (Figure 25) is useful. The amount of marketing communication should be increased as the firm becomes more responsible – i.e. first actions then communication. Managers ought also understand and consider the meso, macro and global level drivers and conditions presented in figure 26.

In order to maintain the short term profitability, firms should start with small steps but change the whole way of thinking and apply it throughout the value chain. Companies that see CR as something that marketing department could take care of would probably do better by not doing anything at all and put the money to something else.

In pursuit of CR image and competitive advantage, firms must make sure that the responsible corporate image matches the other elements of the corporate image, since the CR image has been traditionally perceived as rather politically correct and even leftish. However, the perception seems to be changing and to some extent CR is becoming a prerequisite for all businesses.

### 9.3. Future research opportunities

The phenomenon of corporate responsibility has received increased attention among academics and businesses. However, as well as all areas of research, corporate responsibility and its strategic implications require more research. Many of the previous studies have been very fragmented, i.e. concentration in the depth with the expense of width. The current style of conducting research does not favor holistic approaches greatly. This study was conducted with a rather wide theoretical spectrum but with a rather narrow empirical focus. Even



though the theory was relatively holistic still important and fundamental aspects of (responsible) business were excluded, such as cost efficiency. As a single case study, in a single industry, the results and conclusions lack ability to be generalized – therefore multiple case studies and quantitative testing of the model (Figure 25) are highly propounded. Even though the main contribution of the study remains on the theoretical level, the created model offers as well a practical framework for both academic scholars and businesses describing how firms can be positioned with corporate responsibility.

Therefore, suggestions for future research involve going deeper both into the theoretical concepts (especially into the corporate identity) as well as into the empirical contextes. In addition similar overarching approaches, that combine the most relevant studies hitherto, are momentous. Being incomparable due to lack of similar studies, the objectiveness of the researcher can easily be impugned. The researcher of this study did/does not have any political or financial interests in the case company.

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## APPENDIXES

### Appendix 1. Outline of the interview for the first theme.

Theme	Working propositions	Questions
<b>Demand and supply for corporate responsibility (T1.)</b>	<i>P1. If a demand for corporate responsibility does not exist, firms can create it by supplying corporate responsibility.</i>	Does Scandic supply CR?
		How did Scandic come up with the idea of responsible business? Why?
		Please describe the demand of environmental responsibility in the hotel industry in Finland. Sweden?
		Did demand exist?
		What if it did have not existed?
		How do you know if demand for CR exists?
		Did Scandic create demand for CR? How? Why?
		Is there a different kind of demand in Finland and Sweden for responsible business?
		Why?
		Is there a different kind of supply in Finland and Sweden for responsible business?
		Why?

**Appendix 2.** Outline of the interview for the second theme.

Theme	Working propositions	Questions
<b>Stakeholder orientation and the values of the case company (T2.)</b>	<i>P2. A stakeholder oriented firm forms and re-forms its values based on its key stakeholder's values.</i>	Please describe the role of stakeholders in Scandic.
		Why is this?
		Please describe the role of key stakeholder in Scandic?
		Why is this?
		Are the values of your key stakeholders important? How important are they?
		Why?
		Does Scandic know what their values are? How?
		Does Scandic respond to a change in their key stakeholder values?
		How? Why?
		How do you measure corporate responsibility?
	<i>P5. A key stakeholder oriented firm adjusts the amount of its CR activities, according to the context of its key stakeholders at issue.</i>	What country (you operate in) is the most responsible?
		Why?
		How do you decide the amount of CR practises you perform?
		Describe the "right" amount of CR?
		How the country of operation affect the values? Finland vs. Sweden?
		Why?
		Does the key stakeholder differ in different countries you operate in? Sweden vs. Finland?
		How? Why?

**Appendix 3.** Outline of the interview for the third theme.

Theme	Working propositions	Questions
<b>Corporate responsible image and identity (T3.)</b>	<i>P3. A responsible identity is built upon the whole value chain of the firm.</i>	Describe briefly the identity of Scandic? Why?
		What is the role of CR in identity?
		How do you build a responsible identity?
		What is the role of values in responsible identity?
		How does the value chain relate to corporate values?
		Is it important is that the values are embedded in the whole values chain of your company?
	<i>P4. A reflected image is more likely to lead to desired results than a merely pragmatic image.</i>	What is the image of Scandic?
		What is the relationship between identity and image?
		How do you build a responsible image?
		How important is that image is derived from identity? Why?
<b>General information</b>		Could you please describe the competitive strategy of Scandic?
		How Scandic is different from its competitors?
		What is the role of CR in strategy?
		Can CR be beneficial for both a firm and environment? How?
		Can CR be a strategic issue? How?
		Why is Scandic responsible?
		Are there prerequisites for strategic corporate responsibility? What are they? Why?
		Can a company create / enhance competitive position with CR? How?